



0000049784

# **EXHIBITS**

**W-01303A-05-0405**

**PART 4 OF 4**

**BAR CODE # 0000049784**

**To review remaining Exhibits please  
see the following:**

**PART 1 OF 4 BAR CODED #0000047488**

**PART 2 OF 4 BAR CODED #0000049782**

**PART 3 OF 4 BAR CODED #0000049783**

**EXHIBIT**

A-14

*admitted*

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS PARADISE  
VALLEY DISTRICT

DOCKET NO. W-01303A-05-0405

**REBUTTAL TESTIMONY  
OF  
RONALD L. KOZOMAN  
ON BEHALF OF  
ARIZONA AMERICAN WATER COMPANY  
FEBRUARY 13, 2006**

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**EXECUTIVE SUMMARY**

Ronald L. Kozoman rebuts Staff's and RUCO's rate-design proposals. He testifies that any differences in rates under the Staff and Company rate designs are due to different overall revenue requirements. By contrast, RUCO's proposed across-the-board rate reduction was not supported by any cost-of-service study. RUCO also ignored the Company's existing losses in serving present low-volume customers.

Mr. Kozoman also presents Arizona-American's rebuttal rate-design and rates. He sponsors Rebuttal Schedules H-1, H-2, H-3, AND H-4.



**I. INTRODUCTION AND QUALIFICATIONS**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Ronald L. Kozoman and my business address is 1605 W. Mulberry Drive,  
Phoenix, AZ 85015.

**Q. ARE YOU THE SAME RONALD L. KOZOMAN WHO PREVIOUSLY  
SUBMITTED TESTIMONY IN THIS DOCKET?**

A. Yes.

**Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

A. I have included an Executive Summary at the beginning of my rebuttal testimony.

**Q. HOW IS YOUR TESTIMONY ORGANIZED?**

A. I will provide rebuttal testimony in response to the direct filings by Arizona-American's  
Paradise Valley Water District by Staff and by RUCO. More specifically, my rebuttal  
testimony relates to rate design and the proposed new rates for water utility service by the  
Company in its Paradise Valley Water District.

**II. RATE DESIGN**

**A. STAFF'S AND RUCO'S RATE DESIGN PROPOSALS**

**Q. PLEASE SUMMARIZE YOUR IMPRESSION OF THE COMPANY'S  
PROPOSED RATE DESIGN FROM THE ACC STAFF?**

A. The differences between Staff's proposed rates the Company's are due to different  
revenue requirements.

1 A. Staff has adopted the Company's proposed surcharge for conservation, in a somewhat  
2 different fashion. The Company accepts Staff's proposed conservation surcharge, and  
3 proposes to extend the surcharge to turf customers' usage in the highest block. Please  
4 refer to Mr. Broderick's testimony on the high block usage surcharge for conservation for  
5 turf customers.

6 The Company also agrees with the Staff's proposed meter and service line installations  
7 tariff. Staff does not offer any testimony on the taxability of the proposed meter and  
8 service line installation charges. I am assuming the Staff accepts the Company's  
9 proposal to collect income tax.

10 **Q. WHAT ABOUT RUCO'S PROPOSED RATE DESIGN?**

11 A. RUCO's rate design attempts to deliver a conservation rate design, but because of the rate  
12 reduction, it fails.

13 **Q. THE RATE REDUCTION WOULD HAVE TO RESULT IN LOWER RATES**  
14 **WON'T IT? HOW SHOULD RUCO'S PROPOSED RATES HAVE BEEN SET?**

15 A. Yes, that is true. And, lower rates would signal the customers to use more water, not less.  
16 RUCO's reduction of rates across the board could not be supported by any cost of service  
17 study. In my cost-of-service study that was filed in the direct case, it was quite obvious  
18 that the present and proposed monthly minimums were under priced. Additionally that  
19 cost-of-service study showed that the Company lost money on residential customers until  
20 about 40,000 gallons of water were sold, and this computation was at the Company's  
21 proposed rates. RUCO is assuming that its alleged over-earnings" come ratably from all  
22 customers. However, that would not be the case. At present rates, higher-volume users

1 effectively subsidize lower-volume customers, assuming that additional capacity is not  
2 required.

3 **Q. WHAT ABOUT RUCO'S PROPOSAL ON THE SURCHARGE FOR THE**  
4 **HIGHEST BLOCK FOR USERS?**

5 A. Through the high-block surcharge, Arizona-American is attempting to promote  
6 conservation and partially fund its fire-flow improvement project. RUCO just says "no"  
7 to these two laudable goals.

8 **B. ARIZONA-AMERICAN'S RATE DESIGN PROPOSAL**

9 **Q. WHAT IS THE COMPANY REQUESTING IN RATES IN THE REBUTTAL**  
10 **PHASE?**

11 A. In its rebuttal case, the Company is asking that rates be set to recover a total revenue  
12 requirement of approximately \$5,608,000.

13 **Q. WHAT ARE PARADISE VALLEY'S AND MUMMY MOUNTAIN'S MONTHLY**  
14 **MINIMUM PRESENT RATES AND PROPOSED REBUTTAL RATES FOR**  
15 **WATER SERVICE?**

16 A. The present and proposed monthly minimum charges for water service are shown in the  
17 following table:

| <u>Rebuttal Rate Design</u> | <u>Present</u>          | <u>Rebuttal</u>         |
|-----------------------------|-------------------------|-------------------------|
| <i>Meter Size</i>           | <i>Monthly Minimums</i> | <i>Monthly Minimums</i> |
| 5/8 x 3/4 Inch              | \$ 8.41                 | \$ 9.26                 |
| 3/4-Inch                    | 8.74                    | 9.62                    |
| 1 Inch                      | 14.01                   | 15.42                   |
| 1 1/2-Inch                  | 28.02                   | 30.83                   |
| 2-Inch                      | 44.83                   | 49.32                   |
| 3-Inch                      | 84.06                   | 92.47                   |
| 4-Inch                      | 140.10                  | 154.11                  |
| 6-Inch                      | 280.20                  | 308.22                  |

The above monthly minimums do not include any commodity charge. Fire hydrants are \$5.00.

The existing Mummy Mountain monthly minimums are \$9.00 for 5/8 x 3/4-inch meters and 3/4-inch meters, \$9.75 for 1-inch meters, \$14.00 for 1 1/2-meters, and \$25.75 for 2-inch meters. Mummy Mountain monthly minimums include 1,000 gallons. Under the proposed rates, Mummy Mountain monthly minimums will not include any water and will be the same as proposed for Paradise Valley.

**Q. WHAT ARE THE COMPANY'S PRESENT COMMODITY RATES?**

A. The present commodity rates are \$0.73 for the first tier, \$1.75 for the second tier and \$2.25 for the third tier. The Mummy Mountains commodity rates are \$1.74 for all usage. The \$1.74 includes a purchased water adjuster of \$0.32.

**Q. WHAT ARE THE COMPANY'S PROPOSED REBUTTAL COMMODITY RATES?**

1 A. The rebuttal proposed commodity rates are \$0.78 for the first tier, \$1.80 for the second  
2 tier and \$2.50 for the third tier. The Mummy Mountain customer's commodity rates  
3 would be the same as the Paradise Valley system.

4 Q. ARE THESE RATES, AND THEIR IMPACT SHOWN ON REBUTTAL  
5 SCHEDULES H-1, H-2, H-3, AND H-4?

6 A. Yes.

7 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

8 A. Yes.

Exhibit  
Rebuttal Schedule H-1  
Page 1  
Witness: Kozoman

| Line No. | Meter Size | Class                           |                 | Present Revenues | Proposed Revenues | Dollar Change | Percent Change | Percent of Present Water Revenues | Percent of Proposed Water Revenues |
|----------|------------|---------------------------------|-----------------|------------------|-------------------|---------------|----------------|-----------------------------------|------------------------------------|
| 1        | 5/8 Inch   | Residential                     | P1M1A           | \$ 935,153       | \$ 1,016,437      | \$ 81,284     | 8.69%          | 18.47%                            | 18.18%                             |
| 2        | 5/8 Inch   | Residential                     | P1M1B/Mummy Mt. | 2,189            | 2,047             | (143)         | -6.51%         | 0.04%                             | 0.04%                              |
| 3        | 3/4 Inch   | Residential                     | P1M1A           | 2,592            | 2,843             | 251           | 9.67%          | 0.05%                             | 0.05%                              |
| 4        | 3/4 Inch   | Residential                     | P1M1B/Mummy Mt. |                  |                   |               |                |                                   |                                    |
| 5        | 1 Inch     | Residential                     | P1M1A           | 2,331,936        | 2,570,057         | 238,122       | 10.21%         | 46.05%                            | 45.96%                             |
| 6        | 1 Inch     | Residential                     | P1M1B/Mummy Mt. | 69,426           | 78,225            | 8,799         | 12.67%         | 1.37%                             | 1.40%                              |
| 7        | 1.5 Inch   | Residential                     | P1M1A           | 43,095           | 48,840            | 5,745         | 13.33%         | 0.85%                             | 0.87%                              |
| 8        | 1.5 Inch   | Residential                     | P1M1B/Mummy Mt. | 37,868           | 43,719            | 5,852         | 15.45%         | 0.75%                             | 0.78%                              |
| 9        | 2 Inch     | Residential                     | P1M1A           | 410,108          | 461,350           | 51,242        | 12.49%         | 8.10%                             | 8.25%                              |
| 10       | 2 Inch     | Residential                     | P1M1B/Mummy Mt. | 23,634           | 28,612            |               |                |                                   |                                    |
| 11       |            | Subtotal                        |                 | \$ 3,856,001     | \$ 4,252,130      | \$ 396,129    | 10.27%         | 76.14%                            | 76.04%                             |
| 12       |            |                                 |                 |                  |                   |               |                |                                   |                                    |
| 13       | 5/8 Inch   | Commercial                      | P2M1A           | \$ 6,882         | \$ 7,502          | \$ 620        | 9.01%          | 0.14%                             | 0.13%                              |
| 14       | 3/4 Inch   | Commercial                      | P2M1A           |                  |                   |               |                |                                   |                                    |
| 15       | 1 Inch     | Commercial                      | P2M1A           | 47,649           | 51,491            | 3,842         | 8.06%          | 0.94%                             | 0.92%                              |
| 16       | 1.5 Inch   | Commercial                      | P2M1A           | 38,177           | 41,324            | 3,147         | 8.24%          | 0.75%                             | 0.74%                              |
| 17       | 2 Inch     | Commercial                      | P2M1A           | 614,090          | 666,013           | 51,923        | 8.46%          | 12.13%                            | 11.91%                             |
| 18       | 3 Inch     | Commercial                      | P2M1A           | 92,390           | 101,022           | 8,632         | 9.34%          | 1.82%                             | 1.81%                              |
| 19       | 4 Inch     | Commercial                      | P2M1A           | 1,681            | 1,849             | 168           | 10.00%         | 0.03%                             | 0.03%                              |
| 20       | 6 Inch     | Commercial                      | P2M1A           | 118,060          | 129,068           | 11,008        | 9.32%          | 2.33%                             | 2.31%                              |
| 21       |            | Subtotal                        |                 | \$ 918,929       | \$ 998,270        | \$ 79,340     | 8.63%          | 18.15%                            | 17.85%                             |
| 22       |            |                                 |                 |                  |                   |               |                |                                   |                                    |
| 23       | 3 Inch     | Turf                            | P2M1T           | \$ 61,382        | \$ 74,920         | \$ 13,538     | 22.05%         | 1.21%                             | 1.34%                              |
| 24       | 3 Inch     | Turf                            | P4MIT           | 8,973            | 10,854            | 1,881         | 20.96%         | 0.18%                             | 0.19%                              |
| 25       |            | Subtotal                        |                 | \$ 70,355        | \$ 85,773         | \$ 15,419     | 21.92%         | 1.39%                             | 1.53%                              |
| 26       |            |                                 |                 |                  |                   |               |                |                                   |                                    |
| 27       | 6 Inch     | Paradise Valley CC              | P2PVC           | \$ 153,804       | \$ 187,983        | \$ 34,179     | 22.22%         | 3.04%                             | 3.36%                              |
| 28       |            | Subtotal                        | Contract Rate   | \$ 153,804       | \$ 187,983        | \$ 34,179     | 22.22%         | 3.04%                             | 3.36%                              |
| 29       |            |                                 |                 |                  |                   |               |                |                                   |                                    |
| 30       |            |                                 |                 |                  |                   |               |                |                                   |                                    |
| 31       | 5/8 Inch   | Other Metered                   | P5M1A OWU/OPA   | \$ 508           | \$ 559            | \$ 52         | 10.17%         | 0.01%                             | 0.01%                              |
| 32       | 1 Inch     | Other Metered                   | P5M1A OWU/OPA   | 8,080            | 8,928             | \$ 849        | 10.50%         | 0.16%                             | 0.16%                              |
| 33       | 2 Inch     | Other Metered                   | P5M1A OWU/OPA   | 3,192            | 3,519             | 327           | 10.24%         | 0.06%                             | 0.06%                              |
| 34       |            | Subtotal                        |                 | \$ 11,780        | \$ 13,007         | \$ 1,227      | 10.42%         | 0.23%                             | 0.23%                              |
| 35       |            |                                 |                 |                  |                   |               |                |                                   |                                    |
| 36       | 5/8 Inch   | Fire Hydrant Meter              | P6M1A Fire      | \$ 3,660         | \$ 3,660          | \$ -          | 0.00%          |                                   | 0.07%                              |
| 37       | 3/4 Inch   | Fire Hydrant Meter              | P6M1A Fire      | 55               | 55                | \$ -          | 0.00%          |                                   | 0.00%                              |
| 38       | 1 Inch     | Fire Hydrant Meter              | P6M1A Fire      | 120              | 120               | \$ -          | 0.00%          |                                   |                                    |
| 39       | 2 Inch     | Fire Hydrant Meter              | P6M1A Fire      | 540              | 540               | \$ -          | 0.00%          |                                   |                                    |
| 40       |            | Subtotal                        |                 | \$ 4,375         | \$ 4,375          | \$ -          | 0.00%          | 0.09%                             | 0.08%                              |
| 41       |            |                                 |                 |                  |                   |               |                |                                   |                                    |
| 42       | 3 Inch     | Other Metered                   | P7M1A           | 841              | 925               | \$ 84         | 10.00%         | 0.02%                             | 0.02%                              |
| 43       |            | Subtotal                        |                 | \$ 841           | \$ 925            | \$ 84         | 10.00%         | 0.02%                             | 0.02%                              |
| 44       |            |                                 |                 |                  |                   |               |                |                                   |                                    |
| 45       | Various    | Sales for Resale                |                 | \$ 13,270        | \$ 14,654         | \$ 1,383      | 10.42%         | 0.26%                             | 0.26%                              |
| 46       |            | Subtotal                        |                 | \$ 13,270        | \$ 14,654         | \$ 1,383      | 10.42%         | 0.26%                             | 0.26%                              |
| 47       |            |                                 |                 |                  |                   |               |                |                                   |                                    |
| 48       |            | Other Revenues                  |                 | \$ 12,458        | \$ 12,458         | \$ -          | 0.00%          | 0.25%                             | 0.22%                              |
| 49       |            | Misc. Revenues                  |                 | \$ 924           | \$ 924            | \$ -          | 0.00%          | 0.02%                             | 0.02%                              |
| 50       |            | Adjustments to Revenue          |                 | \$ 8,168         | \$ 8,168          | \$ -          | 0.00%          | 0.16%                             | 0.15%                              |
| 51       |            | Adjustments to Revenue Rebuttal |                 | \$ 8,514         | \$ 9,423          | \$ 909        | 10.68%         | 0.17%                             | 0.17%                              |
| 52       |            | From Sch. C-2                   |                 | \$ 13,429        | \$ 13,429         | \$ -          | 0.00%          | 0.27%                             | 0.24%                              |
| 53       |            |                                 |                 |                  |                   |               |                |                                   |                                    |
| 54       |            | Total                           |                 | \$ 5,064,334     | \$ 5,592,095      | \$ 527,762    | 10.42%         | 100.00%                           | 100.00%                            |
| 55       |            |                                 |                 |                  |                   |               |                |                                   |                                    |

**Arizona-American Water Company /Paradise Valley Water District**  
Test Year 12 Months Ended December 2004  
Analysis of Revenue by Detailed Class

Exhibit  
Rebuttal Schedule H-2  
Page 1  
Witness: Kozoman

|             |                              |                    |                 | (a)<br>Average<br>Number of<br>Customers<br>at<br>12/31/2004 | Average<br>Consumption | Revenues<br>Present<br>Rates<br>Proposed<br>Rates |           | Proposed Increase<br>Dollar<br>Amount<br>Percent<br>Amount |           |          |         |
|-------------|------------------------------|--------------------|-----------------|--|------------------------|---|-----------|--|-----------|----------|---------|
| Line<br>No. | Meter Size, Class, Rate Code |                    |                 |  |                        |   |           |  |           |          |         |
| 1           | 5/8 Inch                     | Residential        | P1M1A           | 2,319  | 22,193                 | \$  | 24.61     | \$   | 26.57     | 1.96     | 7.96%   |
| 2           | 5/8 Inch                     | Residential        | P1M1B/Mummy Mt. | 2  | 48,250                 | \$  | 91.22     | \$   | 70.61     | (20.60)  | -22.59% |
| 3           | 3/4 Inch                     | Residential        | P1M1A           | 17   | 3,473                  | \$  | 11.28     | \$   | 12.33     | 1.05     | 9.34%   |
| 4           | 3/4 Inch                     | Residential        | P1M1B/Mummy Mt. |  |                        |   |           |  |           |          |         |
| 5           | 1 Inch                       | Residential        | P1M1A           | 1,895  | 59,845                 | \$  | 90.80     | \$   | 97.64     | 6.84     | 7.53%   |
| 6           | 1 Inch                       | Residential        | P1M1B/Mummy Mt. | 32   | 98,970                 | \$  | 180.22    | \$   | 181.35    | 1.13     | 0.63%   |
| 7           | 1.5 Inch                     | Residential        | P1M1A           | 10   | 181,715                | \$  | 359.39    | \$   | 403.62    | 44.23    | 12.31%  |
| 8           | 1.5 Inch                     | Residential        | P1M1B/Mummy Mt. | 19   | 87,555                 | \$  | 164.61    | \$   | 168.22    | 3.61     | 2.19%   |
| 9           | 2 Inch                       | Residential        | P1M1A           | 118  | 133,501                | \$  | 271.58    | \$   | 301.57    | 30.00    | 11.04%  |
| 10          | 2 Inch                       | Residential        | P1M1B/Mummy Mt. |  |                        |   |           |  |           |          |         |
| 11          |                              |                    |                 |  |                        |   |           |  |           |          |         |
| 12          |                              | Subtotal           |                 | 4,411  |                        |   |           |  |           |          |         |
| 13          |                              |                    |                 |  |                        |   |           |  |           |          |         |
| 14          | 5/8 Inch                     | Commercial         | P2M1A           | 37   | 5,971                  | \$  | 15.40     | \$   | 16.78     | 1.39     | 9.01%   |
| 15          | 3/4 Inch                     | Commercial         | P2M1A           |  |                        |   |           |  |           |          |         |
| 16          | 1 Inch                       | Commercial         | P2M1A           | 41   | 70,880                 | \$  | 96.94     | \$   | 104.73    | 7.79     | 8.04%   |
| 17          | 1.5 Inch                     | Commercial         | P2M1A           | 22   | 99,279                 | \$  | 144.18    | \$   | 155.92    | 11.75    | 8.15%   |
| 18          | 2 Inch                       | Commercial         | P2M1A           | 116  | 317,689                | \$  | 416.53    | \$   | 449.61    | 33.08    | 7.94%   |
| 19          | 3 Inch                       | Commercial         | P2M1A           | 12   | 415,461                | \$  | 574.63    | \$   | 621.21    | 46.57    | 8.11%   |
| 20          | 4 Inch                       | Commercial         | P2M1A           | 1  | -                      | \$  | 140.10    | \$   | 154.11    | 14.01    | 10.00%  |
| 21          | 6 Inch                       | Commercial         | P2M1A           | 4  | 1,561,292              | \$  | 2,443.69  | \$   | 2,670.29  | 226.60   | 9.27%   |
| 22          |                              |                    |                 |  |                        |   |           |  |           |          |         |
| 23          |                              | Subtotal           |                 | 233  |                        |   |           |  |           |          |         |
| 24          |                              |                    |                 |  |                        |   |           |  |           |          |         |
| 25          | 3 Inch                       | Turf               | P2M1T           | 1  | 6,726,800              | \$  | 6,138.18  | \$   | 7,491.95  | 1,353.77 | 22.05%  |
| 26          | 3 Inch                       | Turf               | P4MIT           | 1  | 812,955                | \$  | 815.72    | \$   | 986.72    | 171.00   | 20.96%  |
| 27          |                              |                    |                 |  |                        |   |           |  |           |          |         |
| 28          |                              | Subtotal           |                 | -  |                        |   |           |  |           |          |         |
| 29          |                              |                    |                 |  |                        |   |           |  |           |          |         |
| 30          | 6 Inch                       | Paradise Valley CC | P2PVC           | 1  | 16,921,917             | \$  | 12,817.00 | \$   | 15,665.22 | 2,848.22 | 22.22%  |
| 31          |                              |                    |                 |  |                        |   |           |  |           |          |         |
| 32          |                              |                    |                 |  |                        |   |           |  |           |          |         |
| 33          | 5/8 Inch                     | Other Metered      | P5M1A OWU/OPA   | 4  | 887                    | \$  | 9.58      | \$   | 10.56     | 0.97     | 10.17%  |
| 34          | 1 Inch                       | Other Metered      | P5M1A OWU/OPA   | 9  | 45,542                 | \$  | 74.12     | \$   | 81.91     | 7.79     | 10.50%  |
| 35          | 2 Inch                       | Other Metered      | P5M1A OWU/OPA   | 4  | 21,000                 | \$  | 72.55     | \$   | 79.98     | 7.43     | 10.24%  |
| 36          |                              |                    |                 |  |                        |   |           |  |           |          |         |
| 37          |                              | Subtotal           |                 | 17   |                        |   |           |  |           |          |         |
| 38          |                              |                    |                 |  |                        |   |           |  |           |          |         |
| 39          | 5/8 Inch                     | Fire Hydrant Meter | P6M1A Fire      | 61   | 136                    | \$  | 5.00      | \$   | 5.00      | -        | 0.00%   |
| 40          | 3/4 Inch                     | Fire Hydrant Meter | P6M1A Fire      | 1  | -                      | \$  | 5.00      | \$   | 5.00      | -        | 0.00%   |
| 41          | 1 Inch                       | Fire Hydrant Meter | P6M1A Fire      | 2  | -                      | \$  | 5.00      | \$   | 5.00      | -        | 0.00%   |
| 42          | 2 Inch                       | Fire Hydrant Meter | P6M1A Fire      | 9  | 14                     | \$  | 5.00      | \$   | 5.00      | -        | 0.00%   |
| 43          |                              |                    |                 |  |                        |   |           |  |           |          |         |
| 44          |                              | Subtotal           |                 | 73   |                        |   |           |  |           |          |         |

Exhibit  
Rebuttal Schedule H-2  
Page 2  
Witness: Kozoman

| Line No. | Meter Size, Class, and Zone            | (a)                                       | Average Consumption | Revenues      |                | Proposed Increase |                |
|----------|--|---|---------------------|---------------|----------------|-------------------|----------------|
|          |  | Average Number of Customers at 12/31/2004 |                     | Present Rates | Proposed Rates | Dollar Amount     | Percent Amount |
| 1        | 3 Inch Other Metered P7M1A             | 1   | -                   | \$ 84.06      | \$ 92.47       | 8.41              | 10.00%         |
| 2        |  |   |                     |               |                |                   |                |
| 3        | Subtotal                               | 1   |                     |               |                |                   |                |
| 4        |  |   |                     |               |                |                   |                |
| 5        | Totals                                 | 4,735                                     |                     |               |                |                   |                |
| 6        |  |   |                     |               |                |                   |                |
| 7        | Various Other Metered Sales for Resale | 19  | 565,000             | \$ 1,105.87   | \$ 1,221.14    | 115.27            | 10.42%         |
| 8        |  |   |                     |               |                |                   |                |
| 9        |  |   |                     |               |                |                   |                |
| 10       |  |   |                     |               |                |                   |                |
| 11       |  |   |                     |               |                |                   |                |
| 12       |  |   |                     |               |                |                   |                |
| 13       |  |   |                     |               |                |                   |                |
| 14       |  |   |                     |               |                |                   |                |
| 15       |  |   |                     |               |                |                   |                |



**Arizona-American Water Company /Paradise Valley Water District**  
**Test Year 12 Months Ended December 2004**  
**Present and Proposed Rates**

Exhibit  
 Rebuttal Schedule H-3  
 Page 1  
 Witness: Kozoman

| Line No. |   | Present Rates | Proposed Rates | Percent Change | Dollar Change |
|----------|---|---------------|----------------|----------------|---------------|
| 1        | <b>Monthly Usage Charge for:</b>                                |               |                |                |               |
| 2        | <u>Residential, Commercial, Turf, Other</u>                     |               |                |                |               |
| 3        | 5/8 x 3/4 Inch  | \$ 8.41       | \$ 9.26        | 10.11%         | \$ 0.85       |
| 4        | 3/4 Inch  | 8.74          | 9.62           | 10.07%         | 0.88          |
| 5        | 1 Inch  | 14.01         | 15.42          | 10.06%         | 1.41          |
| 6        | 1 1/2 Inch  | 28.02         | 30.83          | 10.03%         | 2.81          |
| 7        | 2 Inch  | 44.83         | 49.32          | 10.02%         | 4.49          |
| 8        | 3 Inch  | 84.06         | 92.47          | 10.00%         | 8.41          |
| 9        | 4 Inch  | 140.10        | 154.11         | 10.00%         | 14.01         |
| 10       | 6 Inch  | 280.20        | 308.22         | 10.00%         | 28.02         |
| 11       | Paradise Valley Country Club (Contract Rate)                    | 12,817.00     | 15,665.22      | 22.22%         | 2,848.22      |
| 12       |   |               |                |                |               |
| 13       | <u>Fire Protection</u>  |               |                |                |               |
| 14       | All*  | \$ 5.00       | \$ 5.00        |                |               |
| 15       | (Greater of 1% of minimum charge of \$5.00)                     |               |                |                |               |
| 16       |   |               |                |                |               |
| 17       | <u>Mummy Mountain System</u>                                    |               |                |                |               |
| 18       | <u>Standpipe</u>  |               |                |                |               |
| 19       | 5/8 x 3/4 Inch  | \$ 9.00       | 9.26           | 2.89%          | \$ 0.26       |
| 20       | 3/4 Inch  | 9.00          | 9.62           | 6.89%          | 0.62          |
| 21       | 1 Inch  | 9.75          | 15.42          | 58.15%         | 5.67          |
| 22       | 1 1/2 Inch  | 14.00         | 30.83          | 120.21%        | 16.83         |
| 23       | 2 Inch  | 25.75         | 49.32          | 91.53%         | 23.57         |
| 24       |   |               |                |                |               |
| 25       | <u>Gallons In Minimum</u>                                       |               |                |                |               |
| 26       | Residential, Commercial   | -             | -              |                |               |
| 27       | Residential - <u>Mummy Mountain</u>                             | 1,000         | -              |                |               |
| 28       | Turf  | -             | -              |                |               |
| 29       | Standpipe (Fire Hydrant Meter)                                  | -             | -              |                |               |
| 30       | Fire Sprinkler  | -             | -              |                |               |
| 31       |   |               |                |                |               |
| 32       | <u>Residential</u>  |               |                |                |               |
| 33       | <u>Gallons for Rate Tiers</u>                                   |               |                |                |               |
| 34       | <u>Tier 1: (Gallon upper limit.)</u>                            |               |                |                |               |
| 35       | All   |               | 25,000         | 25,000         |               |
| 36       | <u>Tier 2: (Gallons upper limit)</u>                            |               |                |                |               |
| 37       | All   |               | 80,000         | 80,000         |               |
| 38       | <u>Tier 3: (Gallon over)</u>                                    |               |                |                |               |
| 39       | All   |               | 999,999,999    | 999,999,999    |               |
| 40       | N/T = No Tariff. N/C = Not computed due to lack of denominator. |               |                |                |               |
| 41       |   |               |                |                |               |
| 42       | <u>Residential - Mummy Mountain</u>                             |               |                |                |               |
| 43       | <u>Gallons for Rate Tiers</u>                                   |               |                |                |               |
| 44       | <u>Tier 1: (Gallon upper limit.)</u>                            |               |                |                |               |
| 45       | All   |               | 999,999,999    | 25,000         |               |
| 46       | <u>Tier 2: (Gallons upper limit)</u>                            |               |                |                |               |
| 47       | All   |               | 999,999,999    | 80,000         |               |
| 48       | <u>Tier 3: (Gallon over)</u>                                    |               |                |                |               |
| 49       | All   |               | 999,999,999    | 999,999,999    |               |
| 50       | N/T = No Tariff. N/C = Not computed due to lack of denominator. |               |                |                |               |
| 51       |   |               |                |                |               |

**Arizona-American Water Company /Paradise Valley Water District**  
**Test Year 12 Months Ended December 2004**  
**Present and Proposed Rates**

Exhibit  
Rebuttal Schedule H-3  
Page 2  
Witness: Kozoman

| <u>Line No.</u> |   | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Percent Change</u> |
|-----------------|---|----------------------|-----------------------|-----------------------|
| 1               |   |                      |                       |                       |
| 2               |   |                      |                       |                       |
| 3               | <b>Commercial</b>   |                      |                       |                       |
| 4               | <b><u>Gallons for Rate Tiers</u></b>                            |                      |                       |                       |
| 5               | <b><u>Tier 1: (Gallon upper limit.)</u></b>                     |                      |                       |                       |
| 6               | All   | 400,000              | 400,000               |                       |
| 7               | <b><u>Tier 2: (Gallons upper limit)</u></b>                     |                      |                       |                       |
| 8               | All   | 999,999,999          | 999,999,999           |                       |
| 9               | <b><u>Tier 3: (Gallon over)</u></b>                             |                      |                       |                       |
| 10              | All   | 999,999,999          | 999,999,999           |                       |
| 11              | N/T = No Tariff. N/C = Not computed due to lack of denominator. |                      |                       |                       |
| 12              |   |                      |                       |                       |
| 13              | <b>Turf</b>   |                      |                       |                       |
| 14              | <b><u>Gallons for Rate Tiers</u></b>                            |                      |                       |                       |
| 15              | <b><u>Tier 1: (Gallon upper limit.)</u></b>                     |                      |                       |                       |
| 16              | All   | 999,999,999          | 25,000,000            |                       |
| 17              | <b><u>Tier 2: (Gallons upper limit)</u></b>                     |                      |                       |                       |
| 18              | All   | 999,999,999          | 25,000,001            |                       |
| 19              | <b><u>Tier 3: (Gallon over)</u></b>                             |                      |                       |                       |
| 20              | All   | 999,999,999          | 25,000,001            |                       |
| 21              | N/T = No Tariff. N/C = Not computed due to lack of denominator. |                      |                       |                       |
| 22              |   |                      |                       |                       |
| 23              | <b>Other Metered</b>  |                      |                       |                       |
| 24              | <b><u>Gallons for Rate Tiers</u></b>                            |                      |                       |                       |
| 25              | <b><u>Tier 1: (Gallon upper limit.)</u></b>                     |                      |                       |                       |
| 26              | All   | 999,999,999          | 999,999,999           |                       |
| 27              | <b><u>Tier 2: (Gallons upper limit)</u></b>                     |                      |                       |                       |
| 28              | All   | 999,999,999          | 999,999,999           |                       |
| 29              | <b><u>Tier 3: (Gallon over)</u></b>                             |                      |                       |                       |
| 30              | All   | 999,999,999          | 999,999,999           |                       |
| 31              | N/T = No Tariff. N/C = Not computed due to lack of denominator. |                      |                       |                       |
| 32              |   |                      |                       |                       |
| 33              |   |                      |                       |                       |
| 34              |   |                      |                       |                       |
| 35              | <b>Residential</b>  |                      |                       |                       |
| 36              | <b><u>Commodity Rates</u></b>                                   |                      |                       |                       |
| 37              | <b><u>First Tier</u></b>  | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Percent Change</u> |
| 38              | All   | 0.73                 | 0.78                  | 6.85%                 |
| 39              |   |                      |                       |                       |
| 40              | <b><u>Second Tier</u></b>                                       |                      |                       |                       |
| 41              | All   | 1.68                 | 1.80                  | 7.14%                 |
| 42              |   |                      |                       |                       |
| 43              | <b><u>Third Tier</u></b>  |                      |                       |                       |
| 44              | All   | 2.17                 | 2.50                  | 15.21%                |
| 45              |   |                      |                       |                       |
| 46              | <b><u>Fourth Tier</u></b>                                       |                      |                       |                       |
| 47              | All   | 2.17                 | 2.50                  | 15.21%                |
| 48              |   |                      |                       |                       |

Arizona-American Water Company /Paradise Valley Water District  
Test Year 12 Months Ended December 2004  
Present and Proposed Rates

Exhibit  
Rebuttal Schedule H-3  
Page 3  
Witness: Kozoman

| Line No. |                               | Present Rates | Proposed Rates | Percent Change |
|----------|-------------------------------|---------------|----------------|----------------|
| 1        |                               |               |                |                |
| 2        | Residential - Mummy Mountain  |               |                |                |
| 3        | <u>Commodity Rates</u>        |               |                |                |
| 4        | <u>First Tier</u>             |               |                |                |
| 5        | All                           | 1.42          |                |                |
| 6        | Plus Purchased Water Adjuster | 0.32          |                |                |
| 7        | <u>Combined Rate</u>          | 1.74          | 0.78           | -55.17%        |
| 8        |                               |               |                |                |
| 9        | <u>Second Tier</u>            |               |                |                |
| 10       | All                           | 1.42          |                |                |
| 11       | Plus Purchased Water Adjuster | 0.32          |                |                |
| 12       | <u>Combined Rate</u>          | 1.74          | 1.80           | 3.45%          |
| 13       |                               |               |                |                |
| 14       | <u>Third Tier</u>             |               |                |                |
| 15       | All                           | 1.42          |                |                |
| 16       | Plus Purchased Water Adjuster | 0.32          |                |                |
| 17       | <u>Combined Rate</u>          | 1.74          | 2.50           | 43.68%         |
| 18       |                               |               |                |                |
| 19       | <u>Fourth Tier</u>            |               |                |                |
| 20       | All                           | 1.42          |                |                |
| 21       | Plus Purchased Water Adjuster | 0.32          |                |                |
| 22       | All                           | 1.74          | 2.50           | 43.68%         |
| 23       |                               |               |                |                |
| 24       | Commercial                    |               |                |                |
| 25       | <u>Commodity Rates</u>        |               |                |                |
| 26       | <u>First Tier</u>             |               |                |                |
| 27       | All                           | 1.17          | 1.26           | 7.69%          |
| 28       |                               |               |                |                |
| 29       | <u>Second Tier</u>            |               |                |                |
| 30       | All                           | 1.46          | 1.60           | 9.59%          |
| 31       |                               |               |                |                |
| 32       | <u>Third Tier</u>             |               |                |                |
| 33       | All                           | 1.46          | 1.60           | 9.59%          |
| 34       |                               |               |                |                |
| 35       | <u>Fourth Tier</u>            |               |                |                |
| 36       | All                           | 1.46          | 1.60           | 9.59%          |
| 37       |                               |               |                |                |
| 38       | Turf                          |               |                |                |
| 39       | <u>Commodity Rates</u>        |               |                |                |
| 40       | <u>First Tier</u>             |               |                |                |
| 41       | All                           | 0.90          | 1.10           | 22.22%         |
| 42       |                               |               |                |                |
| 43       | <u>Second Tier</u>            |               |                |                |
| 44       | All                           | 0.90          | 1.10           | 22.22%         |
| 45       |                               |               |                |                |
| 46       | <u>Third Tier</u>             |               |                |                |
| 47       | All                           | 0.90          | 1.10           | 22.22%         |
| 48       |                               |               |                |                |
| 49       | <u>Fourth Tier</u>            |               |                |                |
| 50       | All                           | 0.90          | 1.10           | 22.22%         |
| 51       |                               |               |                |                |

Arizona-American Water Company /Paradise Valley Water District  
Test Year 12 Months Ended December 2004  
Present and Proposed Rates

Exhibit  
Schedule H-3  
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Witness: Kozoman

Line

No.

|    |  |                |                 |                   |
|----|--|----------------|-----------------|-------------------|
| 1  | Other General Metered  |                |                 |                   |
| 2  | <u>Commodity Rates</u>   | <u>Present</u> | <u>Proposed</u> | <u>Percent</u>    |
| 3  | <u>First Tier</u>  | <u>Rates</u>   | <u>Rates</u>    | <u>Change</u>     |
| 4  | All  | 1.32           | 1.46            | 10.61%            |
| 5  |  |                |                 |                   |
| 6  | <u>Second Tier</u>   |                |                 |                   |
| 7  | All  | 1.32           | 1.46            | 10.61%            |
| 8  |  |                |                 |                   |
| 9  | <u>Third Tier</u>  |                |                 |                   |
| 10 | All  | 1.32           | 1.46            | 10.61%            |
| 11 |  |                |                 |                   |
| 12 | <u>Fourth Tier</u>   |                |                 |                   |
| 13 | All  | 1.32           | 1.46            | 10.61%            |
| 14 |  |                |                 |                   |
| 15 | Other Water Utility  |                |                 |                   |
| 16 | <u>Commodity Rates</u>   | <u>Present</u> | <u>Proposed</u> | <u>Percent</u>    |
| 17 | <u>First Tier</u>  | <u>Rates</u>   | <u>Rates</u>    | <u>Change</u>     |
| 18 | All  | 1.18           | 1.46            | 23.73%            |
| 19 |  |                |                 |                   |
| 20 | <u>Second Tier</u>   |                |                 |                   |
| 21 | All  | 1.18           | 1.46            | 23.73%            |
| 22 |  |                |                 |                   |
| 23 | <u>Third Tier</u>  |                |                 |                   |
| 24 | All  | 1.18           | 1.46            | 23.73%            |
| 25 |  |                |                 |                   |
| 26 | <u>Fourth Tier</u>   |                |                 |                   |
| 27 | All  | 1.18           | 1.46            | 23.73%            |
| 28 |  |                |                 |                   |
| 29 |  |                |                 |                   |
| 30 | <u>High Block Usage Surcharges Treated as Contribution in Aid of Construction:</u> |                |                 |                   |
| 31 | <u>Surcharge: To be Accounted for as Contributions in Aid of Construction</u>      |                |                 |                   |
| 32 | <u>All Customers</u>   |                |                 |                   |
| 33 | Residential: All Usage in Third Tier   | N/T            | \$ 2.15         | N/C               |
| 34 | Commercial: All Usage in Second Block  | N/T            | \$ 2.15         | N/C               |
| 35 | Turf : All usage in Second Block   | N/T            | \$ 2.15         | N/C               |
| 36 |  |                |                 |                   |
| 37 | <u>CAP Surcharge</u>   |                |                 |                   |
| 38 | All Residentil usage in Excess of 45, 000 Gallons                                  |                | \$ 0.0769       | Per 1,000 Gallons |
| 39 | All Non-Residential Customers Except Sales of Resale                               |                | \$ 0.0769       | Per 1,000 Gallons |
| 40 | CAP Expense Recovery Surcharge   |                |                 |                   |
| 41 | All Customers  |                | \$ 1.01         | Per Year          |

Arizona-American Water Company /Paradise Valley Water District  
Changes in Representative Rate Schedules  
Test Year 12 Months Ended December 2004

Exhibit  
Rebuttal Schedule H-3  
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Witness: Kozoman

| Line |  | Present      | Proposed     |
|------|--|--------------|--------------|
| No.  | <u>Other Service Charges</u>   | <u>Rates</u> | <u>Rates</u> |
| 1    | Establishment  | \$ 20.00     | \$ 20.00     |
| 2    | Establishment (After Hours)  | \$ 40.00     | \$ 40.00     |
| 3    | Reconnection (Delinquent)  | \$ 30.00     | \$ 30.00     |
| 4    | Reconnection (Delinquent and After Hours)  | \$ 60.00     | \$ 60.00     |
| 5    | Meter Test, if meter is correct  | \$ 15.00     | \$ 15.00     |
| 6    | Deposit  | *            | *            |
| 7    | Deposit Interest   | *            | *            |
| 8    | Re-Establishment (Within 12 Months)  | **           | **           |
| 9    | NSF Check  | \$ 12.00     | \$ 12.00     |
| 10   | Deferred Payment   | 1.5%         | 1.5%         |
| 11   | Meter Re-Read (If Correct)   | \$ 10.00     | \$ 10.00     |
| 12   | Late Payment Penalty   | 1.5%         | 1.5%         |
| 13   |  |              |              |
| 14   | Service Line and Meter Installation Charges:   |              |              |
| 15   |  |              |              |
| 16   |  |              |              |
| 17   |  |              |              |
| 18   |  |              |              |
| 19   | * PER COMMISSION RULES A.A.C. (R14-2-403.B)  |              |              |
| 20   | ** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D)                       |              |              |
| 21   | IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM                                |              |              |
| 22   | ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE                              |              |              |
| 23   | TAX. PER COMMISSION RULE (14-2-409.D 5).   |              |              |
| 24   | ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,                                |              |              |
| 25   | AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.                      |              |              |
| 26   | (a) From Memorandum from Marlin Scott, dated June 30, 2004   |              |              |
| 27   | (b) As meters and service lines are now taxable income for income purposes, The Company shall collect income |              |              |
| 28   | taxes on the meter and service line charges. Any tax collected will be refunded as the meter & service line  |              |              |
| 29   | is refunded.   |              |              |
| 30   |  |              |              |
| 31   |  |              |              |
| 32   |  |              |              |
| 33   |  |              |              |
| 34   |  |              |              |
| 35   |  |              |              |
| 36   |  |              |              |
| 37   |  |              |              |

Arizona-American Water Company /Paradise Valley Water District  
Changes in Representative Rate Schedules  
Test Year 12 Months Ended December 2004

Exhibit  
Rebuttal Schedule H-3  
Page 6  
Witness: Kozoman

Line Service Charges

No. Meter and Service Line Charges

|    |                      | Present      | Proposed     |
|----|----------------------|--------------|--------------|
|    |                      | Meter &      | Meter &      |
|    |                      | Service      | Service      |
|    |                      | Line         | Line         |
|    |                      | Installation | Installation |
|    |                      | Charges      | Charges      |
| 1  |                      |              |              |
| 2  |                      |              |              |
| 3  |                      |              |              |
| 4  |                      |              |              |
| 5  |                      |              |              |
| 6  |                      |              |              |
| 7  |                      |              |              |
| 8  | 5/8 x 3/4 Inch Meter | \$ 330.00    | \$ 480.00    |
| 9  | 3/4 Inch Meter       | \$ 360.00    | \$ 560.00    |
| 10 | 1 Inch Meter         | \$ 411.00    | \$ 650.00    |
| 11 | 1 1/2 Inch Meter     | \$ 550.00    | \$ 895.00    |
| 12 | 2 Inch Meter         | \$ 604.00    | \$ 1,555.00  |
| 13 | 3 Inch Meter         | \$ 1,062.00  | \$ 2,235.00  |
| 14 | 4 Inch Meter         | \$ 1,806.00  | \$ 3,440.00  |
| 15 | 6 Inch Meter         | \$ 3,872.00  | \$ 6,195.00  |

16

17

18

19

20

21 As meters and service lines are now taxable income for income purposes, The Company  
22 shall collect income taxes on the meter and service line charges. Any tax cikkected will  
23 refunded as meter and service is refunded.

24

25

26

**Arizona-American Water Company /Paradise Valley Water District**  
**Bill Comparison Present and Proposed Rates**  
Meter Size and Code      5/8 Inch Residential (P1M1A)

Exhibit  
Rebuttal Schedule H-4  
Page 1  
Witness: Kozoman

| <u>Usage</u>  | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>Increase</u> |                            |
|---------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|----------------------------|
| -             | \$ 8.41                       | \$ 9.26                        | \$ 0.85                          | 10.11%                            |                            |
| 1,000         | 9.14                          | 10.04                          | \$ 0.90                          | 9.85%                             |                            |
| 2,000         | 9.87                          | 10.82                          | \$ 0.95                          | 9.63%                             | \$ 8.41                    |
| 3,000         | 10.60                         | 11.60                          | \$ 1.00                          | 9.43%                             | Gallons in Minimum -       |
| 4,000         | 11.33                         | 12.38                          | \$ 1.05                          | 9.27%                             | Charge Per 1,000 Gallons   |
| 5,000         | 12.06                         | 13.16                          | \$ 1.10                          | 9.12%                             | Up to 25,000 \$ 0.73       |
| 6,000         | 12.79                         | 13.94                          | \$ 1.15                          | 8.99%                             | Up to 80,000 \$ 1.68       |
| 7,000         | 13.52                         | 14.72                          | \$ 1.20                          | 8.88%                             | Up to 999,999,999 \$ 2.17  |
| 8,000         | 14.25                         | 15.50                          | \$ 1.25                          | 8.77%                             | Over 1,000,000,000 \$ 2.17 |
| 9,000         | 14.98                         | 16.28                          | \$ 1.30                          | 8.68%                             |                            |
| 10,000        | 15.71                         | 17.06                          | \$ 1.35                          | 8.59%                             |                            |
| 11,000        | 16.44                         | 17.84                          | \$ 1.40                          | 8.52%                             | <b>Proposed Rates:</b>     |
| 12,000        | 17.17                         | 18.62                          | \$ 1.45                          | 8.44%                             | Monthly Minimum: \$ 9.26   |
| 13,000        | 17.90                         | 19.40                          | \$ 1.50                          | 8.38%                             | Gallons in Minimum -       |
| 14,000        | 18.63                         | 20.18                          | \$ 1.55                          | 8.32%                             | Charge Per 1,000 Gallons   |
| 15,000        | 19.36                         | 20.96                          | \$ 1.60                          | 8.26%                             | Up to 25,000 \$ 0.78       |
| 16,000        | 20.09                         | 21.74                          | \$ 1.65                          | 8.21%                             | Up to 80,000 \$ 1.80       |
| 17,000        | 20.82                         | 22.52                          | \$ 1.70                          | 8.17%                             | Up to 999,999,999 \$ 2.50  |
| 18,000        | 21.55                         | 23.30                          | \$ 1.75                          | 8.12%                             | Over 1,000,000,000 \$ 2.50 |
| 19,000        | 22.28                         | 24.08                          | \$ 1.80                          | 8.08%                             |                            |
| 20,000        | 23.01                         | 24.86                          | \$ 1.85                          | 8.04%                             |                            |
| 40,000        | 51.86                         | 55.76                          | \$ 3.90                          | 7.52%                             |                            |
| 80,000        | 119.06                        | 127.76                         | \$ 8.70                          | 7.31%                             |                            |
| 160,000       | 292.66                        | 327.76                         | \$ 35.10                         | 11.99%                            |                            |
| 321,000       | 642.03                        | 730.26                         | \$ 88.23                         | 13.74%                            |                            |
| 332,000       | 665.90                        | 757.76                         | \$ 91.86                         | 13.79%                            |                            |
| 337,000       | 676.75                        | 770.26                         | \$ 93.51                         | 13.82%                            |                            |
| 398,000       | 809.12                        | 922.76                         | \$ 113.64                        | 14.04%                            |                            |
| Average Usage |                               |                                |                                  |                                   |                            |
| 22,193        | \$ 24.61                      | \$ 26.57                       | \$ 1.96                          | 7.96%                             |                            |
| Median Usage  |                               |                                |                                  |                                   |                            |
| 11,500        | \$ 16.81                      | \$ 18.23                       | \$ 1.43                          | 8.48%                             |                            |

**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code      3/4 Inch Residential (P1M1A)

Exhibit

Rebuttal Schedule      H-4

Page      2

Witness: Kozoman

| <u>Usage</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u>   | <u>Percent</u>  |
|--------------|----------------|-----------------|-----------------|-----------------|
|              | <u>Bill</u>    | <u>Bill</u>     | <u>Increase</u> | <u>Increase</u> |
| -            | \$ 8.74        | \$ 9.62         | \$ 0.88         | 10.07%          |
| 1,000        | 9.47           | 10.40           | \$ 0.93         | 9.82%           |
| 2,000        | 10.20          | 11.18           | \$ 0.98         | 9.61%           |
| 3,000        | 10.93          | 11.96           | \$ 1.03         | 9.42%           |
| 4,000        | 11.66          | 12.74           | \$ 1.08         | 9.26%           |
| 5,000        | 12.39          | 13.52           | \$ 1.13         | 9.12%           |
| 6,000        | 13.12          | 14.30           | \$ 1.18         | 8.99%           |
| 7,000        | 13.85          | 15.08           | \$ 1.23         | 8.88%           |
| 8,000        | 14.58          | 15.86           | \$ 1.28         | 8.78%           |
| 9,000        | 15.31          | 16.64           | \$ 1.33         | 8.69%           |
| 10,000       | 16.04          | 17.42           | \$ 1.38         | 8.60%           |
| 11,000       | 16.77          | 18.20           | \$ 1.43         | 8.53%           |
| 12,000       | 17.50          | 18.98           | \$ 1.48         | 8.46%           |
| 13,000       | 18.23          | 19.76           | \$ 1.53         | 8.39%           |
| 14,000       | 18.96          | 20.54           | \$ 1.58         | 8.33%           |
| 15,000       | 19.69          | 21.32           | \$ 1.63         | 8.28%           |
| 16,000       | 20.42          | 22.10           | \$ 1.68         | 8.23%           |
| 17,000       | 21.15          | 22.88           | \$ 1.73         | 8.18%           |
| 18,000       | 21.88          | 23.66           | \$ 1.78         | 8.14%           |
| 19,000       | 22.61          | 24.44           | \$ 1.83         | 8.09%           |
| 20,000       | 23.34          | 25.22           | \$ 1.88         | 8.05%           |
| 40,000       | 52.19          | 56.12           | \$ 3.93         | 7.53%           |
| 80,000       | 119.39         | 128.12          | \$ 8.73         | 7.31%           |
| 81,000       | 121.56         | 130.62          | \$ 9.06         | 7.45%           |
| 134,000      | 236.57         | 263.12          | \$ 26.55        | 11.22%          |

**Present Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 8.74 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 25,000             | \$ 0.73 |
| Up to 80,000             | \$ 1.68 |
| Up to 999,999,999        | \$ 2.17 |
| Over 1,000,000,000       | \$ 2.17 |

**Proposed Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 9.62 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 25,000             | \$ 0.78 |
| Up to 80,000             | \$ 1.80 |
| Up to 999,999,999        | \$ 2.50 |
| Over 1,000,000,000       | \$ 2.50 |

**Average Usage**

3,473 \$ 11.28 \$ 12.33 \$ 1.05 9.34%

**Median Usage**

1,000 \$ 9.47 \$ 10.40 \$ 0.93 9.82%



**Arizona-American Water Company /Paradise Valley Water District**  
**Bill Comparison Present and Proposed Rates**  
**Meter Size and Code      1 Inch Residential (P1M1A)**

Exhibit  
Rebuttal Schedule H-4  
Page 3  
Witness: Kozoman

| <u>Usage</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u>   | <u>Percent</u>  |
|--------------|----------------|-----------------|-----------------|-----------------|
|              | <u>Bill</u>    | <u>Bill</u>     | <u>Increase</u> | <u>Increase</u> |
| -            | \$ 14.01       | \$ 15.42        | \$ 1.41         | 10.06%          |
| 1,000        | 14.74          | 16.20           | \$ 1.46         | 9.91%           |
| 2,000        | 15.47          | 16.98           | \$ 1.51         | 9.76%           |
| 3,000        | 16.20          | 17.76           | \$ 1.56         | 9.63%           |
| 4,000        | 16.93          | 18.54           | \$ 1.61         | 9.51%           |
| 5,000        | 17.66          | 19.32           | \$ 1.66         | 9.40%           |
| 6,000        | 18.39          | 20.10           | \$ 1.71         | 9.30%           |
| 7,000        | 19.12          | 20.88           | \$ 1.76         | 9.21%           |
| 8,000        | 19.85          | 21.66           | \$ 1.81         | 9.12%           |
| 9,000        | 20.58          | 22.44           | \$ 1.86         | 9.04%           |
| 10,000       | 21.31          | 23.22           | \$ 1.91         | 8.96%           |
| 11,000       | 22.04          | 24.00           | \$ 1.96         | 8.89%           |
| 12,000       | 22.77          | 24.78           | \$ 2.01         | 8.83%           |
| 13,000       | 23.50          | 25.56           | \$ 2.06         | 8.77%           |
| 14,000       | 24.23          | 26.34           | \$ 2.11         | 8.71%           |
| 15,000       | 24.96          | 27.12           | \$ 2.16         | 8.65%           |
| 16,000       | 25.69          | 27.90           | \$ 2.21         | 8.60%           |
| 17,000       | 26.42          | 28.68           | \$ 2.26         | 8.55%           |
| 18,000       | 27.15          | 29.46           | \$ 2.31         | 8.51%           |
| 19,000       | 27.88          | 30.24           | \$ 2.36         | 8.46%           |
| 20,000       | 28.61          | 31.02           | \$ 2.41         | 8.42%           |
| 40,000       | 57.46          | 61.92           | \$ 4.46         | 7.76%           |
| 80,000       | 124.66         | 133.92          | \$ 9.26         | 7.43%           |
| 167,000      | 313.45         | 351.42          | \$ 37.97        | 12.11%          |
| 362,000      | 736.60         | 838.92          | \$ 102.32       | 13.89%          |
| 365,000      | 743.11         | 846.42          | \$ 103.31       | 13.90%          |
| 367,000      | 747.45         | 851.42          | \$ 103.97       | 13.91%          |
| 368,000      | 749.62         | 853.92          | \$ 104.30       | 13.91%          |
| 369,000      | 751.79         | 856.42          | \$ 104.63       | 13.92%          |
| 1,853,000    | 3,972.07       | 4,566.42        | \$ 594.35       | 14.96%          |
| 1,877,000    | 4,024.15       | 4,626.42        | \$ 602.27       | 14.97%          |
| 2,058,000    | 4,416.92       | 5,078.92        | \$ 662.00       | 14.99%          |
| 2,099,000    | 4,505.89       | 5,181.42        | \$ 675.53       | 14.99%          |
| 2,258,000    | 4,850.92       | 5,578.92        | \$ 728.00       | 15.01%          |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 14.01 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 25,000             | \$ 0.73  |
| Up to 80,000             | \$ 1.68  |
| Up to 999,999,999        | \$ 2.17  |
| Over 1,000,000,000       | \$ 2.17  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 15.42 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 25,000             | \$ 0.78  |
| Up to 80,000             | \$ 1.80  |
| Up to 999,999,999        | \$ 2.50  |
| Over 1,000,000,000       | \$ 2.50  |

|               |          |          |         |       |
|---------------|----------|----------|---------|-------|
| Average Usage |          |          |         |       |
| 59,845        | \$ 90.80 | \$ 97.64 | \$ 6.84 | 7.53% |
| Median Usage  |          |          |         |       |
| 40,501        | \$ 58.30 | \$ 62.82 | \$ 4.52 | 7.75% |

**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code      1 1/2 Inch Residential (P1M1A)

Exhibit

Rebuttal Schedule H-4

Page 4

Witness: Kozoman

| <u>Usage</u> | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>Increase</u> |
|--------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| -            | \$ 28.02                      | \$ 30.83                       | \$ 2.81                          | 10.03%                            |
| 1,000        | 28.75                         | 31.61                          | \$ 2.86                          | 9.95%                             |
| 2,000        | 29.48                         | 32.39                          | \$ 2.91                          | 9.87%                             |
| 3,000        | 30.21                         | 33.17                          | \$ 2.96                          | 9.80%                             |
| 4,000        | 30.94                         | 33.95                          | \$ 3.01                          | 9.73%                             |
| 5,000        | 31.67                         | 34.73                          | \$ 3.06                          | 9.66%                             |
| 6,000        | 32.40                         | 35.51                          | \$ 3.11                          | 9.60%                             |
| 7,000        | 33.13                         | 36.29                          | \$ 3.16                          | 9.54%                             |
| 8,000        | 33.86                         | 37.07                          | \$ 3.21                          | 9.48%                             |
| 9,000        | 34.59                         | 37.85                          | \$ 3.26                          | 9.42%                             |
| 10,000       | 35.32                         | 38.63                          | \$ 3.31                          | 9.37%                             |
| 11,000       | 36.05                         | 39.41                          | \$ 3.36                          | 9.32%                             |
| 12,000       | 36.78                         | 40.19                          | \$ 3.41                          | 9.27%                             |
| 13,000       | 37.51                         | 40.97                          | \$ 3.46                          | 9.22%                             |
| 14,000       | 38.24                         | 41.75                          | \$ 3.51                          | 9.18%                             |
| 15,000       | 38.97                         | 42.53                          | \$ 3.56                          | 9.14%                             |
| 16,000       | 39.70                         | 43.31                          | \$ 3.61                          | 9.09%                             |
| 17,000       | 40.43                         | 44.09                          | \$ 3.66                          | 9.05%                             |
| 18,000       | 41.16                         | 44.87                          | \$ 3.71                          | 9.01%                             |
| 19,000       | 41.89                         | 45.65                          | \$ 3.76                          | 8.98%                             |
| 20,000       | 42.62                         | 46.43                          | \$ 3.81                          | 8.94%                             |
| 40,000       | 71.47                         | 77.33                          | \$ 5.86                          | 8.20%                             |
| 80,000       | 138.67                        | 149.33                         | \$ 10.66                         | 7.69%                             |
| 161,000      | 314.44                        | 351.83                         | \$ 37.39                         | 11.89%                            |
| 321,000      | 661.64                        | 751.83                         | \$ 90.19                         | 13.63%                            |
| 656,000      | 1,388.59                      | 1,589.33                       | \$ 200.74                        | 14.46%                            |
| 666,000      | 1,410.29                      | 1,614.33                       | \$ 204.04                        | 14.47%                            |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 28.02 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 25,000             | \$ 0.73  |
| Up to 80,000             | \$ 1.68  |
| Up to 999,999,999        | \$ 2.17  |
| Over 1,000,000,000       | \$ 2.17  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 30.83 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 25,000             | \$ 0.78  |
| Up to 80,000             | \$ 1.80  |
| Up to 999,999,999        | \$ 2.50  |
| Over 1,000,000,000       | \$ 2.50  |

**Average Usage**

181,715 \$ 359.39 \$ 403.62 \$ 44.23 12.31%

**Median Usage**

103,000 \$ 188.58 \$ 206.83 \$ 18.25 9.68%

**Arizona-American Water Company /Paradise Valley Water District**  
**Bill Comparison Present and Proposed Rates**  
**Meter Size and Code      2 Inch Residential (P1M1A)**

**Exhibit**  
**Rebuttal Schedule H-4**  
**Page                      5**  
**Witness: Kozoman**

| <u>Usage</u> | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>Increase</u> |
|--------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| -            | \$ 44.83                      | \$ 49.32                       | \$ 4.49                          | 10.02%                            |
| 1,000        | 45.56                         | 50.10                          | \$ 4.54                          | 9.96%                             |
| 2,000        | 46.29                         | 50.88                          | \$ 4.59                          | 9.92%                             |
| 3,000        | 47.02                         | 51.66                          | \$ 4.64                          | 9.87%                             |
| 4,000        | 47.75                         | 52.44                          | \$ 4.69                          | 9.82%                             |
| 5,000        | 48.48                         | 53.22                          | \$ 4.74                          | 9.78%                             |
| 6,000        | 49.21                         | 54.00                          | \$ 4.79                          | 9.73%                             |
| 7,000        | 49.94                         | 54.78                          | \$ 4.84                          | 9.69%                             |
| 8,000        | 50.67                         | 55.56                          | \$ 4.89                          | 9.65%                             |
| 9,000        | 51.40                         | 56.34                          | \$ 4.94                          | 9.61%                             |
| 10,000       | 52.13                         | 57.12                          | \$ 4.99                          | 9.57%                             |
| 11,000       | 52.86                         | 57.90                          | \$ 5.04                          | 9.53%                             |
| 12,000       | 53.59                         | 58.68                          | \$ 5.09                          | 9.50%                             |
| 13,000       | 54.32                         | 59.46                          | \$ 5.14                          | 9.46%                             |
| 14,000       | 55.05                         | 60.24                          | \$ 5.19                          | 9.43%                             |
| 15,000       | 55.78                         | 61.02                          | \$ 5.24                          | 9.39%                             |
| 16,000       | 56.51                         | 61.80                          | \$ 5.29                          | 9.36%                             |
| 17,000       | 57.24                         | 62.58                          | \$ 5.34                          | 9.33%                             |
| 18,000       | 57.97                         | 63.36                          | \$ 5.39                          | 9.30%                             |
| 19,000       | 58.70                         | 64.14                          | \$ 5.44                          | 9.27%                             |
| 20,000       | 59.43                         | 64.92                          | \$ 5.49                          | 9.24%                             |
| 40,000       | 88.28                         | 95.82                          | \$ 7.54                          | 8.54%                             |
| 80,000       | 155.48                        | 167.82                         | \$ 12.34                         | 7.94%                             |
| 160,000      | 329.08                        | 367.82                         | \$ 38.74                         | 11.77%                            |
| 322,000      | 680.62                        | 772.82                         | \$ 92.20                         | 13.55%                            |
| 656,000      | 1,405.40                      | 1,607.82                       | \$ 202.42                        | 14.40%                            |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 44.83 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 25,000             | \$ 0.73  |
| Up to 80,000             | \$ 1.68  |
| Up to 999,999,999        | \$ 2.17  |
| Over 1,000,000,000       | \$ 2.17  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 49.32 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 25,000             | \$ 0.78  |
| Up to 80,000             | \$ 1.80  |
| Up to 999,999,999        | \$ 2.50  |
| Over 1,000,000,000       | \$ 2.50  |

**Average Usage**

133,501 \$ 271.58 \$ 301.57 \$ 30.00 11.04%

**Median Usage**

74,501 \$ 146.24 \$ 157.92 \$ 11.68 7.99%

**Arizona-American Water Company /Paradise Valley Water District**  
**Bill Comparison Present and Proposed Rates**  
**Meter Size and Code      5/8 Inch Residential (P1M1B) Mummy Mountain**

**Exhibit**  
**Rebuttal Schedule H-4**  
**Page                                  6**  
**Witness: Kozoman**

| <u>Usage</u> | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>Increase</u> |
|--------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| -            | \$ 9.00                       | \$ 9.26                        | \$ 0.26                          | 2.89%                             |
| 1,000        | 9.00                          | 10.04                          | \$ 1.04                          | 11.56%                            |
| 2,000        | 10.74                         | 10.82                          | \$ 0.08                          | 0.74%                             |
| 3,000        | 12.48                         | 11.60                          | \$ (0.88)                        | -7.05%                            |
| 4,000        | 14.22                         | 12.38                          | \$ (1.84)                        | -12.94%                           |
| 5,000        | 15.96                         | 13.16                          | \$ (2.80)                        | -17.54%                           |
| 6,000        | 17.70                         | 13.94                          | \$ (3.76)                        | -21.24%                           |
| 7,000        | 19.44                         | 14.72                          | \$ (4.72)                        | -24.28%                           |
| 8,000        | 21.18                         | 15.50                          | \$ (5.68)                        | -26.82%                           |
| 9,000        | 22.92                         | 16.28                          | \$ (6.64)                        | -28.97%                           |
| 10,000       | 24.66                         | 17.06                          | \$ (7.60)                        | -30.82%                           |
| 11,000       | 26.40                         | 17.84                          | \$ (8.56)                        | -32.42%                           |
| 12,000       | 28.14                         | 18.62                          | \$ (9.52)                        | -33.83%                           |
| 13,000       | 29.88                         | 19.40                          | \$ (10.48)                       | -35.07%                           |
| 14,000       | 31.62                         | 20.18                          | \$ (11.44)                       | -36.18%                           |
| 15,000       | 33.36                         | 20.96                          | \$ (12.40)                       | -37.17%                           |
| 16,000       | 35.10                         | 21.74                          | \$ (13.36)                       | -38.06%                           |
| 17,000       | 36.84                         | 22.52                          | \$ (14.32)                       | -38.87%                           |
| 18,000       | 38.58                         | 23.30                          | \$ (15.28)                       | -39.61%                           |
| 19,000       | 40.32                         | 24.08                          | \$ (16.24)                       | -40.28%                           |
| 20,000       | 42.06                         | 24.86                          | \$ (17.20)                       | -40.89%                           |
| 40,000       | 76.86                         | 55.76                          | \$ (21.10)                       | -27.45%                           |
| 80,000       | 146.46                        | 127.76                         | \$ (18.70)                       | -12.77%                           |
| 191,000      | 339.60                        | 405.26                         | \$ 65.66                         | 19.33%                            |

**Present Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 9.00 |
| Gallons in Minimum       | 1,000   |
| Charge Per 1,000 Gallons |         |
| Up to 999,999,999        | \$ 1.74 |
| Up to 999,999,999        | \$ 1.74 |
| Up to 999,999,999        | \$ 1.74 |
| Over 1,000,000,000       | \$ 1.74 |

**Proposed Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 9.26 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 25,000             | \$ 0.78 |
| Up to 80,000             | \$ 1.80 |
| Up to 999,999,999        | \$ 2.50 |
| Over 1,000,000,000       | \$ 2.50 |

|                      |          |          |            |         |
|----------------------|----------|----------|------------|---------|
| <b>Average Usage</b> |          |          |            |         |
| 48,250               | \$ 91.22 | \$ 70.61 | \$ (20.60) | -22.59% |
| <b>Median Usage</b>  |          |          |            |         |
| 11,001               | \$ 26.40 | \$ 17.84 | \$ (8.56)  | -32.42% |

Arizona-American Water Company /Paradise Valley Water District  
 Bill Comparison Present and Proposed Rates  
 Meter Size and Code 1 Inch Residential (P1M1B) Mummy Mountain

Exhibit  
 Rebuttal Schedule H-4  
 Page 7  
 Witness: Kozoman

| Usage   | Present<br>Bill | Proposed<br>Bill | Dollar<br>Increase | Percent<br>Increase |
|---------|-----------------|------------------|--------------------|---------------------|
| -       | \$ 9.75         | \$ 15.42         | \$ 5.67            | 58.15%              |
| 1,000   | 9.75            | 16.20            | \$ 6.45            | 66.15%              |
| 2,000   | 11.49           | 16.98            | \$ 5.49            | 47.78%              |
| 3,000   | 13.23           | 17.76            | \$ 4.53            | 34.24%              |
| 4,000   | 14.97           | 18.54            | \$ 3.57            | 23.85%              |
| 5,000   | 16.71           | 19.32            | \$ 2.61            | 15.62%              |
| 6,000   | 18.45           | 20.10            | \$ 1.65            | 8.94%               |
| 7,000   | 20.19           | 20.88            | \$ 0.69            | 3.42%               |
| 8,000   | 21.93           | 21.66            | \$ (0.27)          | -1.23%              |
| 9,000   | 23.67           | 22.44            | \$ (1.23)          | -5.20%              |
| 10,000  | 25.41           | 23.22            | \$ (2.19)          | -8.62%              |
| 11,000  | 27.15           | 24.00            | \$ (3.15)          | -11.60%             |
| 12,000  | 28.89           | 24.78            | \$ (4.11)          | -14.23%             |
| 13,000  | 30.63           | 25.56            | \$ (5.07)          | -16.55%             |
| 14,000  | 32.37           | 26.34            | \$ (6.03)          | -18.63%             |
| 15,000  | 34.11           | 27.12            | \$ (6.99)          | -20.49%             |
| 16,000  | 35.85           | 27.90            | \$ (7.95)          | -22.18%             |
| 17,000  | 37.59           | 28.68            | \$ (8.91)          | -23.70%             |
| 18,000  | 39.33           | 29.46            | \$ (9.87)          | -25.10%             |
| 19,000  | 41.07           | 30.24            | \$ (10.83)         | -26.37%             |
| 20,000  | 42.81           | 31.02            | \$ (11.79)         | -27.54%             |
| 80,000  | 147.21          | 133.92           | \$ (13.29)         | -9.03%              |
| 160,000 | 286.41          | 333.92           | \$ 47.51           | 16.59%              |
| 324,000 | 571.77          | 743.92           | \$ 172.15          | 30.11%              |
| 601,000 | 1,053.75        | 1,436.42         | \$ 382.67          | 36.32%              |

**Present Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 9.75 |
| Gallons in Minimum       | 1,000   |
| Charge Per 1,000 Gallons |         |
| Up to 999,999,999        | \$ 1.74 |
| Up to 999,999,999        | \$ 1.74 |
| Up to 999,999,999        | \$ 1.74 |
| Over 1,000,000,000       | \$ 1.74 |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 15.42 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 25,000             | \$ 0.78  |
| Up to 80,000             | \$ 1.80  |
| Up to 999,999,999        | \$ 2.50  |
| Over 1,000,000,000       | \$ 2.50  |

|               |           |           |            |         |
|---------------|-----------|-----------|------------|---------|
| Average Usage |           |           |            |         |
| 98,970        | \$ 180.22 | \$ 181.35 | \$ 1.13    | 0.63%   |
| Median Usage  |           |           |            |         |
| 73,501        | \$ 135.90 | \$ 122.22 | \$ (13.68) | -10.07% |

**Arizona-American Water Company /Paradise Valley Water District**  
**Bill Comparison Present and Proposed Rates**  
Meter Size and Code     1 1/2 Inch Residential (P1M1B) Mummy Mountain

Exhibit  
Rebuttal Schedule H-4  
Page 8  
Witness: Kozoman

| <u>Usage</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u>   | <u>Percent</u>  |
|--------------|----------------|-----------------|-----------------|-----------------|
|              | <u>Bill</u>    | <u>Bill</u>     | <u>Increase</u> | <u>Increase</u> |
| -            | \$ 14.00       | \$ 30.83        | \$ 16.83        | 120.21%         |
| 1,000        | 14.00          | 31.61           | \$ 17.61        | 125.79%         |
| 2,000        | 15.74          | 32.39           | \$ 16.65        | 105.78%         |
| 3,000        | 17.48          | 33.17           | \$ 15.69        | 89.76%          |
| 4,000        | 19.22          | 33.95           | \$ 14.73        | 76.64%          |
| 5,000        | 20.96          | 34.73           | \$ 13.77        | 65.70%          |
| 6,000        | 22.70          | 35.51           | \$ 12.81        | 56.43%          |
| 7,000        | 24.44          | 36.29           | \$ 11.85        | 48.49%          |
| 8,000        | 26.18          | 37.07           | \$ 10.89        | 41.60%          |
| 9,000        | 27.92          | 37.85           | \$ 9.93         | 35.57%          |
| 10,000       | 29.66          | 38.63           | \$ 8.97         | 30.24%          |
| 11,000       | 31.40          | 39.41           | \$ 8.01         | 25.51%          |
| 12,000       | 33.14          | 40.19           | \$ 7.05         | 21.27%          |
| 13,000       | 34.88          | 40.97           | \$ 6.09         | 17.46%          |
| 14,000       | 36.62          | 41.75           | \$ 5.13         | 14.01%          |
| 15,000       | 38.36          | 42.53           | \$ 4.17         | 10.87%          |
| 16,000       | 40.10          | 43.31           | \$ 3.21         | 8.00%           |
| 17,000       | 41.84          | 44.09           | \$ 2.25         | 5.38%           |
| 18,000       | 43.58          | 44.87           | \$ 1.29         | 2.96%           |
| 19,000       | 45.32          | 45.65           | \$ 0.33         | 0.73%           |
| 20,000       | 47.06          | 46.43           | \$ (0.63)       | -1.34%          |
| 40,000       | 81.86          | 77.33           | \$ (4.53)       | -5.53%          |
| 80,000       | 151.46         | 149.33          | \$ (2.13)       | -1.41%          |
| 165,000      | 299.36         | 361.83          | \$ 62.47        | 20.87%          |
| 315,000      | 560.36         | 736.83          | \$ 176.47       | 31.49%          |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 14.00 |
| Gallons in Minimum       | 1,000    |
| Charge Per 1,000 Gallons |          |
| Up to 999,999,999        | \$ 1.74  |
| Up to 999,999,999        | \$ 1.74  |
| Up to 999,999,999        | \$ 1.74  |
| Over 1,000,000,000       | \$ 1.74  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 30.83 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 25,000             | \$ 0.78  |
| Up to 80,000             | \$ 1.80  |
| Up to 999,999,999        | \$ 2.50  |
| Over 1,000,000,000       | \$ 2.50  |

|               |           |           |           |        |
|---------------|-----------|-----------|-----------|--------|
| Average Usage |           |           |           |        |
| 87,555        | \$ 164.61 | \$ 168.22 | \$ 3.61   | 2.19%  |
| Median Usage  |           |           |           |        |
| 64,501        | \$ 124.49 | \$ 121.43 | \$ (3.06) | -2.46% |

**Arizona-American Water Company /Paradise Valley Water District**  
**Bill Comparison Present and Proposed Rates**  
**Meter Size and Code     2 Inch Residential (P1M1B) Mummy Mountain**

**Exhibit**  
**Rebuttal Schedule H-4**  
**Page                     9**  
**Witness: Kozoman**

| <u>Usage</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u>   | <u>Percent</u>  |
|--------------|----------------|-----------------|-----------------|-----------------|
|              | <u>Bill</u>    | <u>Bill</u>     | <u>Increase</u> | <u>Increase</u> |
| -            | \$ 25.75       | \$ 49.32        | \$ 23.57        | 91.53%          |
| 1,000        | 25.75          | 50.10           | \$ 24.35        | 94.56%          |
| 2,000        | 27.49          | 50.88           | \$ 23.39        | 85.09%          |
| 3,000        | 29.23          | 51.66           | \$ 22.43        | 76.74%          |
| 4,000        | 30.97          | 52.44           | \$ 21.47        | 69.33%          |
| 5,000        | 32.71          | 53.22           | \$ 20.51        | 62.70%          |
| 6,000        | 34.45          | 54.00           | \$ 19.55        | 56.75%          |
| 7,000        | 36.19          | 54.78           | \$ 18.59        | 51.37%          |
| 8,000        | 37.93          | 55.56           | \$ 17.63        | 46.48%          |
| 9,000        | 39.67          | 56.34           | \$ 16.67        | 42.02%          |
| 10,000       | 41.41          | 57.12           | \$ 15.71        | 37.94%          |
| 11,000       | 43.15          | 57.90           | \$ 14.75        | 34.18%          |
| 12,000       | 44.89          | 58.68           | \$ 13.79        | 30.72%          |
| 13,000       | 46.63          | 59.46           | \$ 12.83        | 27.51%          |
| 14,000       | 48.37          | 60.24           | \$ 11.87        | 24.54%          |
| 15,000       | 50.11          | 61.02           | \$ 10.91        | 21.77%          |
| 16,000       | 51.85          | 61.80           | \$ 9.95         | 19.19%          |
| 17,000       | 53.59          | 62.58           | \$ 8.99         | 16.78%          |
| 18,000       | 55.33          | 63.36           | \$ 8.03         | 14.51%          |
| 19,000       | 57.07          | 64.14           | \$ 7.07         | 12.39%          |
| 20,000       | 58.81          | 64.92           | \$ 6.11         | 10.39%          |
| 40,000       | 93.61          | 95.82           | \$ 2.21         | 2.36%           |
| 81,000       | 164.95         | 170.32          | \$ 5.37         | 3.26%           |
| 162,000      | 305.89         | 372.82          | \$ 66.93        | 21.88%          |
| 332,000      | 601.69         | 797.82          | \$ 196.13       | 32.60%          |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 25.75 |
| Gallons in Minimum       | 1,000    |
| Charge Per 1,000 Gallons |          |
| Up to 999,999,999        | \$ 1.74  |
| Up to 999,999,999        | \$ 1.74  |
| Up to 999,999,999        | \$ 1.74  |
| Over 1,000,000,000       | \$ 1.74  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 49.32 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 25,000             | \$ 0.78  |
| Up to 80,000             | \$ 1.80  |
| Up to 999,999,999        | \$ 2.50  |
| Over 1,000,000,000       | \$ 2.50  |

**Average Usage**

111,949 \$ 218.80 \$ 247.69 \$ 28.89 13.20%

**Median Usage**

84,501 \$ 171.04 \$ 179.07 \$ 8.03 4.70%

**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code      5/8 Inch Commercial (P2M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>Increase</u> |
|--------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| -            | \$ 8.41                       | \$ 9.26                        | \$ 0.85                          | 10.11%                            |
| 1,000        | 9.58                          | 10.52                          | \$ 0.94                          | 9.81%                             |
| 2,000        | 10.75                         | 11.78                          | \$ 1.03                          | 9.58%                             |
| 3,000        | 11.92                         | 13.04                          | \$ 1.12                          | 9.40%                             |
| 4,000        | 13.09                         | 14.30                          | \$ 1.21                          | 9.24%                             |
| 5,000        | 14.26                         | 15.56                          | \$ 1.30                          | 9.12%                             |
| 6,000        | 15.43                         | 16.82                          | \$ 1.39                          | 9.01%                             |
| 7,000        | 16.60                         | 18.08                          | \$ 1.48                          | 8.92%                             |
| 8,000        | 17.77                         | 19.34                          | \$ 1.57                          | 8.84%                             |
| 9,000        | 18.94                         | 20.60                          | \$ 1.66                          | 8.76%                             |
| 10,000       | 20.11                         | 21.86                          | \$ 1.75                          | 8.70%                             |
| 11,000       | 21.28                         | 23.12                          | \$ 1.84                          | 8.65%                             |
| 12,000       | 22.45                         | 24.38                          | \$ 1.93                          | 8.60%                             |
| 13,000       | 23.62                         | 25.64                          | \$ 2.02                          | 8.55%                             |
| 14,000       | 24.79                         | 26.90                          | \$ 2.11                          | 8.51%                             |
| 15,000       | 25.96                         | 28.16                          | \$ 2.20                          | 8.47%                             |
| 16,000       | 27.13                         | 29.42                          | \$ 2.29                          | 8.44%                             |
| 17,000       | 28.30                         | 30.68                          | \$ 2.38                          | 8.41%                             |
| 18,000       | 29.47                         | 31.94                          | \$ 2.47                          | 8.38%                             |
| 19,000       | 30.64                         | 33.20                          | \$ 2.56                          | 8.36%                             |
| 20,000       | 31.81                         | 34.46                          | \$ 2.65                          | 8.33%                             |
| 40,000       | 55.21                         | 59.66                          | \$ 4.45                          | 8.06%                             |
| 80,000       | 102.01                        | 110.06                         | \$ 8.05                          | 7.89%                             |
| 204,000      | 247.09                        | 266.30                         | \$ 19.21                         | 7.77%                             |

**Present Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 8.41 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 400,000            | \$ 1.17 |
| Up to 999,999,999        | \$ 1.46 |
| Up to 999,999,999        | \$ 1.46 |
| Over 1,000,000,000       | \$ 1.46 |

**Proposed Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 9.26 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 400,000            | \$ 1.26 |
| Up to 999,999,999        | \$ 1.60 |
| Up to 999,999,999        | \$ 1.60 |
| Over 1,000,000,000       | \$ 1.60 |

**Average Usage**

5,971 \$ 15.40 \$ 16.78 \$ 1.39 9.01%

**Median Usage**

- \$ 8.41 \$ 9.26 \$ 0.85 10.11%



Arizona-American Water Company /Paradise Valley Water District

Bill Comparison Present and Proposed Rates

Meter Size and Code 1 Inch Commercial (P2M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u>   | <u>Percent</u>  |
|--------------|----------------|-----------------|-----------------|-----------------|
|              | <u>Bill</u>    | <u>Bill</u>     | <u>Increase</u> | <u>Increase</u> |
| -            | \$ 14.01       | \$ 15.42        | \$ 1.41         | 10.06%          |
| 1,000        | 15.18          | 16.68           | \$ 1.50         | 9.88%           |
| 2,000        | 16.35          | 17.94           | \$ 1.59         | 9.72%           |
| 3,000        | 17.52          | 19.20           | \$ 1.68         | 9.59%           |
| 4,000        | 18.69          | 20.46           | \$ 1.77         | 9.47%           |
| 5,000        | 19.86          | 21.72           | \$ 1.86         | 9.37%           |
| 6,000        | 21.03          | 22.98           | \$ 1.95         | 9.27%           |
| 7,000        | 22.20          | 24.24           | \$ 2.04         | 9.19%           |
| 8,000        | 23.37          | 25.50           | \$ 2.13         | 9.11%           |
| 9,000        | 24.54          | 26.76           | \$ 2.22         | 9.05%           |
| 10,000       | 25.71          | 28.02           | \$ 2.31         | 8.98%           |
| 11,000       | 26.88          | 29.28           | \$ 2.40         | 8.93%           |
| 12,000       | 28.05          | 30.54           | \$ 2.49         | 8.88%           |
| 13,000       | 29.22          | 31.80           | \$ 2.58         | 8.83%           |
| 14,000       | 30.39          | 33.06           | \$ 2.67         | 8.79%           |
| 15,000       | 31.56          | 34.32           | \$ 2.76         | 8.75%           |
| 16,000       | 32.73          | 35.58           | \$ 2.85         | 8.71%           |
| 17,000       | 33.90          | 36.84           | \$ 2.94         | 8.67%           |
| 18,000       | 35.07          | 38.10           | \$ 3.03         | 8.64%           |
| 19,000       | 36.24          | 39.36           | \$ 3.12         | 8.61%           |
| 20,000       | 37.41          | 40.62           | \$ 3.21         | 8.58%           |
| 40,000       | 60.81          | 65.82           | \$ 5.01         | 8.24%           |
| 80,000       | 107.61         | 116.22          | \$ 8.61         | 8.00%           |
| 160,000      | 201.21         | 217.02          | \$ 15.81        | 7.86%           |
| 361,000      | 436.38         | 470.28          | \$ 33.90        | 7.77%           |
| 664,000      | 867.45         | 941.82          | \$ 74.37        | 8.57%           |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 14.01 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 400,000            | \$ 1.17  |
| Up to 999,999,999        | \$ 1.46  |
| Up to 999,999,999        | \$ 1.46  |
| Over 1,000,000,000       | \$ 1.46  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 15.42 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 400,000            | \$ 1.26  |
| Up to 999,999,999        | \$ 1.60  |
| Up to 999,999,999        | \$ 1.60  |
| Over 1,000,000,000       | \$ 1.60  |

**Average Usage**

70,880 \$ 96.94 \$ 104.73 \$ 7.79 8.04%

**Median Usage**

29,501 \$ 48.53 \$ 52.59 \$ 4.07 8.38%

**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code      1 1/2 Inch Commercial (P2M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>Increase</u> |
|--------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| -            | \$ 28.02                      | \$ 30.83                       | \$ 2.81                          | 10.03%                            |
| 1,000        | 29.19                         | 32.09                          | \$ 2.90                          | 9.93%                             |
| 2,000        | 30.36                         | 33.35                          | \$ 2.99                          | 9.85%                             |
| 3,000        | 31.53                         | 34.61                          | \$ 3.08                          | 9.77%                             |
| 4,000        | 32.70                         | 35.87                          | \$ 3.17                          | 9.69%                             |
| 5,000        | 33.87                         | 37.13                          | \$ 3.26                          | 9.63%                             |
| 6,000        | 35.04                         | 38.39                          | \$ 3.35                          | 9.56%                             |
| 7,000        | 36.21                         | 39.65                          | \$ 3.44                          | 9.50%                             |
| 8,000        | 37.38                         | 40.91                          | \$ 3.53                          | 9.44%                             |
| 9,000        | 38.55                         | 42.17                          | \$ 3.62                          | 9.39%                             |
| 10,000       | 39.72                         | 43.43                          | \$ 3.71                          | 9.34%                             |
| 11,000       | 40.89                         | 44.69                          | \$ 3.80                          | 9.29%                             |
| 12,000       | 42.06                         | 45.95                          | \$ 3.89                          | 9.25%                             |
| 13,000       | 43.23                         | 47.21                          | \$ 3.98                          | 9.21%                             |
| 14,000       | 44.40                         | 48.47                          | \$ 4.07                          | 9.17%                             |
| 15,000       | 45.57                         | 49.73                          | \$ 4.16                          | 9.13%                             |
| 16,000       | 46.74                         | 50.99                          | \$ 4.25                          | 9.09%                             |
| 17,000       | 47.91                         | 52.25                          | \$ 4.34                          | 9.06%                             |
| 18,000       | 49.08                         | 53.51                          | \$ 4.43                          | 9.03%                             |
| 19,000       | 50.25                         | 54.77                          | \$ 4.52                          | 9.00%                             |
| 20,000       | 51.42                         | 56.03                          | \$ 4.61                          | 8.97%                             |
| 40,000       | 74.82                         | 81.23                          | \$ 6.41                          | 8.57%                             |
| 80,000       | 121.62                        | 131.63                         | \$ 10.01                         | 8.23%                             |
| 160,000      | 215.22                        | 232.43                         | \$ 17.21                         | 8.00%                             |
| 341,000      | 426.99                        | 460.49                         | \$ 33.50                         | 7.85%                             |
| 682,000      | 907.74                        | 986.03                         | \$ 78.29                         | 8.62%                             |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 28.02 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 400,000            | \$ 1.17  |
| Up to 999,999,999        | \$ 1.46  |
| Up to 999,999,999        | \$ 1.46  |
| Over 1,000,000,000       | \$ 1.46  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 30.83 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 400,000            | \$ 1.26  |
| Up to 999,999,999        | \$ 1.60  |
| Up to 999,999,999        | \$ 1.60  |
| Over 999,999,999         | \$ 1.60  |

|               |           |           |          |       |
|---------------|-----------|-----------|----------|-------|
| Average Usage |           |           |          |       |
| 99,279        | \$ 144.18 | \$ 155.92 | \$ 11.75 | 8.15% |
| Median Usage  |           |           |          |       |
| 61,501        | \$ 99.98  | \$ 108.32 | \$ 8.35  | 8.35% |

**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code      2 Inch Commercial (P2M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>Increase</u> |
|--------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| -            | \$ 44.83                      | \$ 49.32                       | \$ 4.49                          | 10.02%                            |
| 1,000        | 46.00                         | 50.58                          | \$ 4.58                          | 9.96%                             |
| 2,000        | 47.17                         | 51.84                          | \$ 4.67                          | 9.90%                             |
| 3,000        | 48.34                         | 53.10                          | \$ 4.76                          | 9.85%                             |
| 4,000        | 49.51                         | 54.36                          | \$ 4.85                          | 9.80%                             |
| 5,000        | 50.68                         | 55.62                          | \$ 4.94                          | 9.75%                             |
| 6,000        | 51.85                         | 56.88                          | \$ 5.03                          | 9.70%                             |
| 7,000        | 53.02                         | 58.14                          | \$ 5.12                          | 9.66%                             |
| 8,000        | 54.19                         | 59.40                          | \$ 5.21                          | 9.61%                             |
| 9,000        | 55.36                         | 60.66                          | \$ 5.30                          | 9.57%                             |
| 10,000       | 56.53                         | 61.92                          | \$ 5.39                          | 9.53%                             |
| 11,000       | 57.70                         | 63.18                          | \$ 5.48                          | 9.50%                             |
| 12,000       | 58.87                         | 64.44                          | \$ 5.57                          | 9.46%                             |
| 13,000       | 60.04                         | 65.70                          | \$ 5.66                          | 9.43%                             |
| 14,000       | 61.21                         | 66.96                          | \$ 5.75                          | 9.39%                             |
| 15,000       | 62.38                         | 68.22                          | \$ 5.84                          | 9.36%                             |
| 16,000       | 63.55                         | 69.48                          | \$ 5.93                          | 9.33%                             |
| 17,000       | 64.72                         | 70.74                          | \$ 6.02                          | 9.30%                             |
| 18,000       | 65.89                         | 72.00                          | \$ 6.11                          | 9.27%                             |
| 20,000       | 68.23                         | 74.52                          | \$ 6.29                          | 9.22%                             |
| 40,000       | 91.63                         | 99.72                          | \$ 8.09                          | 8.83%                             |
| 160,000      | 232.03                        | 250.92                         | \$ 18.89                         | 8.14%                             |
| 641,000      | 864.69                        | 938.92                         | \$ 74.23                         | 8.58%                             |
| 1,220,000    | 1,710.03                      | 1,865.32                       | \$ 155.29                        | 9.08%                             |
| 1,826,000    | 2,594.79                      | 2,834.92                       | \$ 240.13                        | 9.25%                             |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 44.83 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 400,000            | \$ 1.17  |
| Up to 999,999,999        | \$ 1.46  |
| Up to 999,999,999        | \$ 1.46  |
| Over 1,000,000,000       | \$ 1.46  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 49.32 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 400,000            | \$ 1.26  |
| Up to 999,999,999        | \$ 1.60  |
| Up to 999,999,999        | \$ 1.60  |
| Over 1,000,000,000       | \$ 1.60  |

**Average Usage**

317,689 \$ 416.53 \$ 449.61 \$ 33.08 7.94%

**Median Usage**

194,000 \$ 271.81 \$ 293.76 \$ 21.95 8.08%

**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code      3 Inch Commercial (P2M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>Increase</u> |
|--------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| -            | \$ 84.06                      | \$ 92.47                       | \$ 8.41                          | 10.00%                            |
| 1,000        | 85.23                         | 93.73                          | \$ 8.50                          | 9.97%                             |
| 2,000        | 86.40                         | 94.99                          | \$ 8.59                          | 9.94%                             |
| 3,000        | 87.57                         | 96.25                          | \$ 8.68                          | 9.91%                             |
| 4,000        | 88.74                         | 97.51                          | \$ 8.77                          | 9.88%                             |
| 5,000        | 89.91                         | 98.77                          | \$ 8.86                          | 9.85%                             |
| 6,000        | 91.08                         | 100.03                         | \$ 8.95                          | 9.83%                             |
| 7,000        | 92.25                         | 101.29                         | \$ 9.04                          | 9.80%                             |
| 8,000        | 93.42                         | 102.55                         | \$ 9.13                          | 9.77%                             |
| 9,000        | 94.59                         | 103.81                         | \$ 9.22                          | 9.75%                             |
| 10,000       | 95.76                         | 105.07                         | \$ 9.31                          | 9.72%                             |
| 11,000       | 96.93                         | 106.33                         | \$ 9.40                          | 9.70%                             |
| 12,000       | 98.10                         | 107.59                         | \$ 9.49                          | 9.67%                             |
| 13,000       | 99.27                         | 108.85                         | \$ 9.58                          | 9.65%                             |
| 14,000       | 100.44                        | 110.11                         | \$ 9.67                          | 9.63%                             |
| 15,000       | 101.61                        | 111.37                         | \$ 9.76                          | 9.61%                             |
| 16,000       | 102.78                        | 112.63                         | \$ 9.85                          | 9.58%                             |
| 17,000       | 103.95                        | 113.89                         | \$ 9.94                          | 9.56%                             |
| 18,000       | 105.12                        | 115.15                         | \$ 10.03                         | 9.54%                             |
| 19,000       | 106.29                        | 116.41                         | \$ 10.12                         | 9.52%                             |
| 20,000       | 107.46                        | 117.67                         | \$ 10.21                         | 9.50%                             |
| 40,000       | 130.86                        | 142.87                         | \$ 12.01                         | 9.18%                             |
| 80,000       | 177.66                        | 193.27                         | \$ 15.61                         | 8.79%                             |
| 190,000      | 306.36                        | 331.87                         | \$ 25.51                         | 8.33%                             |
| 289,000      | 422.19                        | 456.61                         | \$ 34.42                         | 8.15%                             |
| 290,000      | 423.36                        | 457.87                         | \$ 34.51                         | 8.15%                             |
| 774,000      | 1,098.10                      | 1,194.87                       | \$ 96.77                         | 8.81%                             |
| 5,114,000    | 7,434.50                      | 8,138.87                       | \$ 704.37                        | 9.47%                             |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 84.06 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 400,000            | \$ 1.17  |
| Up to 999,999,999        | \$ 1.46  |
| Up to 999,999,999        | \$ 1.46  |
| Over 1,000,000,000       | \$ 1.46  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 92.47 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 400,000            | \$ 1.26  |
| Up to 999,999,999        | \$ 1.60  |
| Up to 999,999,999        | \$ 1.60  |
| Over 1,000,000,000       | \$ 1.60  |

**Average Usage**

415,461 \$ 574.63 \$ 621.21 \$ 46.57 8.11%

**Median Usage**

12,501 \$ 98.69 \$ 108.22 \$ 9.54 9.66%

Arizona-American Water Company /Paradise Valley Water District

Bill Comparison Present and Proposed Rates

Meter Size and Code 4 Inch Commercial (P2M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| Usage   | Present<br>Bill | Proposed<br>Bill | Dollar<br>Increase | Percent<br>Increase |
|---------|-----------------|------------------|--------------------|---------------------|
| -       | \$ 140.10       | \$ 154.11        | \$ 14.01           | 10.00%              |
| 1,000   | 141.27          | 155.37           | \$ 14.10           | 9.98%               |
| 2,000   | 142.44          | 156.63           | \$ 14.19           | 9.96%               |
| 3,000   | 143.61          | 157.89           | \$ 14.28           | 9.94%               |
| 4,000   | 144.78          | 159.15           | \$ 14.37           | 9.93%               |
| 5,000   | 145.95          | 160.41           | \$ 14.46           | 9.91%               |
| 6,000   | 147.12          | 161.67           | \$ 14.55           | 9.89%               |
| 7,000   | 148.29          | 162.93           | \$ 14.64           | 9.87%               |
| 8,000   | 149.46          | 164.19           | \$ 14.73           | 9.86%               |
| 9,000   | 150.63          | 165.45           | \$ 14.82           | 9.84%               |
| 10,000  | 151.80          | 166.71           | \$ 14.91           | 9.82%               |
| 11,000  | 152.97          | 167.97           | \$ 15.00           | 9.81%               |
| 12,000  | 154.14          | 169.23           | \$ 15.09           | 9.79%               |
| 13,000  | 155.31          | 170.49           | \$ 15.18           | 9.77%               |
| 14,000  | 156.48          | 171.75           | \$ 15.27           | 9.76%               |
| 15,000  | 157.65          | 173.01           | \$ 15.36           | 9.74%               |
| 16,000  | 158.82          | 174.27           | \$ 15.45           | 9.73%               |
| 17,000  | 159.99          | 175.53           | \$ 15.54           | 9.71%               |
| 18,000  | 161.16          | 176.79           | \$ 15.63           | 9.70%               |
| 19,000  | 162.33          | 178.05           | \$ 15.72           | 9.68%               |
| 20,000  | 163.50          | 179.31           | \$ 15.81           | 9.67%               |
| 40,000  | 186.90          | 204.51           | \$ 17.61           | 9.42%               |
| 80,000  | 233.70          | 254.91           | \$ 21.21           | 9.08%               |
| 100,000 | 257.10          | 280.11           | \$ 23.01           | 8.95%               |

**Present Rates:**

|                          |           |
|--------------------------|-----------|
| Monthly Minimum:         | \$ 140.10 |
| Gallons in Minimum       | -         |
| Charge Per 1,000 Gallons |           |
| Up to 400,000            | \$ 1.17   |
| Up to 999,999,999        | \$ 1.46   |
| Up to 999,999,999        | \$ 1.46   |
| Over 1,000,000,000       | \$ 1.46   |

**Proposed Rates:**

|                          |           |
|--------------------------|-----------|
| Monthly Minimum:         | \$ 154.11 |
| Gallons in Minimum       | -         |
| Charge Per 1,000 Gallons |           |
| Up to 400,000            | \$ 1.26   |
| Up to 999,999,999        | \$ 1.60   |
| Up to 999,999,999        | \$ 1.60   |
| Over 1,000,000,000       | \$ 1.60   |

Average Usage

- \$ 140.10 \$ 154.11 \$ 14.01 10.00%

Median Usage

- \$ 140.10 \$ 154.11 \$ 14.01 10.00%

Arizona-American Water Company /Paradise Valley Water District

Bill Comparison Present and Proposed Rates

Meter Size and Code 6 Inch Commercial (P2M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u>   | <u>Percent</u>  |
|--------------|----------------|-----------------|-----------------|-----------------|
|              | <u>Bill</u>    | <u>Bill</u>     | <u>Increase</u> | <u>Increase</u> |
| -            | \$ 280.20      | \$ 308.22       | \$ 28.02        | 10.00%          |
| 1,000        | 281.37         | 309.48          | \$ 28.11        | 9.99%           |
| 2,000        | 282.54         | 310.74          | \$ 28.20        | 9.98%           |
| 3,000        | 283.71         | 312.00          | \$ 28.29        | 9.97%           |
| 4,000        | 284.88         | 313.26          | \$ 28.38        | 9.96%           |
| 5,000        | 286.05         | 314.52          | \$ 28.47        | 9.95%           |
| 6,000        | 287.22         | 315.78          | \$ 28.56        | 9.94%           |
| 7,000        | 288.39         | 317.04          | \$ 28.65        | 9.93%           |
| 8,000        | 289.56         | 318.30          | \$ 28.74        | 9.93%           |
| 9,000        | 290.73         | 319.56          | \$ 28.83        | 9.92%           |
| 10,000       | 291.90         | 320.82          | \$ 28.92        | 9.91%           |
| 11,000       | 293.07         | 322.08          | \$ 29.01        | 9.90%           |
| 12,000       | 294.24         | 323.34          | \$ 29.10        | 9.89%           |
| 13,000       | 295.41         | 324.60          | \$ 29.19        | 9.88%           |
| 14,000       | 296.58         | 325.86          | \$ 29.28        | 9.87%           |
| 15,000       | 297.75         | 327.12          | \$ 29.37        | 9.86%           |
| 16,000       | 298.92         | 328.38          | \$ 29.46        | 9.86%           |
| 17,000       | 300.09         | 329.64          | \$ 29.55        | 9.85%           |
| 18,000       | 301.26         | 330.90          | \$ 29.64        | 9.84%           |
| 19,000       | 302.43         | 332.16          | \$ 29.73        | 9.83%           |
| 20,000       | 303.60         | 333.42          | \$ 29.82        | 9.82%           |
| 40,000       | 327.00         | 358.62          | \$ 31.62        | 9.67%           |
| 80,000       | 373.80         | 409.02          | \$ 35.22        | 9.42%           |
| 153,000      | 459.21         | 501.00          | \$ 41.79        | 9.10%           |
| 312,000      | 645.24         | 701.34          | \$ 56.10        | 8.69%           |
| 1,054,000    | 1,703.04       | 1,858.62        | \$ 155.58       | 9.14%           |
| 3,410,000    | 5,142.80       | 5,628.22        | \$ 485.42       | 9.44%           |
| 6,365,000    | 9,457.10       | 10,356.22       | \$ 899.12       | 9.51%           |

**Present Rates:**

|                          |           |
|--------------------------|-----------|
| Monthly Minimum:         | \$ 280.20 |
| Gallons in Minimum       | -         |
| Charge Per 1,000 Gallons |           |
| Up to 400,000            | \$ 1.17   |
| Up to 999,999,999        | \$ 1.46   |
| Up to 999,999,999        | \$ 1.46   |
| Over 1,000,000,000       | \$ 1.46   |

**Proposed Rates:**

|                          |           |
|--------------------------|-----------|
| Monthly Minimum:         | \$ 308.22 |
| Gallons in Minimum       | -         |
| Charge Per 1,000 Gallons |           |
| Up to 400,000            | \$ 1.26   |
| Up to 999,999,999        | \$ 1.60   |
| Up to 999,999,999        | \$ 1.60   |
| Over 1,000,000,000       | \$ 1.60   |

**Average Usage**

1,561,292 \$ 2,443.69 \$ 2,670.29 \$ 226.60 9.27%

**Median Usage**

474,000 \$ 856.24 \$ 930.62 \$ 74.38 8.69%

**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code                      3 Inch Turf (P2M1T)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u>         | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>Increase</u> |
|----------------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| -                    | \$ 84.06                      | \$ 92.47                       | \$ 8.41                          | 10.00%                            |
| 1,000                | 84.96                         | 93.57                          | 8.61                             | 10.13%                            |
| 2,000                | 85.86                         | 94.67                          | 8.81                             | 10.26%                            |
| 3,000                | 86.76                         | 95.77                          | 9.01                             | 10.38%                            |
| 4,000                | 87.66                         | 96.87                          | 9.21                             | 10.51%                            |
| 5,000                | 88.56                         | 97.97                          | 9.41                             | 10.63%                            |
| 6,000                | 89.46                         | 99.07                          | 9.61                             | 10.74%                            |
| 7,000                | 90.36                         | 100.17                         | 9.81                             | 10.86%                            |
| 8,000                | 91.26                         | 101.27                         | 10.01                            | 10.97%                            |
| 9,000                | 92.16                         | 102.37                         | 10.21                            | 11.08%                            |
| 10,000               | 93.06                         | 103.47                         | 10.41                            | 11.19%                            |
| 11,000               | 93.96                         | 104.57                         | 10.61                            | 11.29%                            |
| 12,000               | 94.86                         | 105.67                         | 10.81                            | 11.40%                            |
| 13,000               | 95.76                         | 106.77                         | 11.01                            | 11.50%                            |
| 14,000               | 96.66                         | 107.87                         | 11.21                            | 11.60%                            |
| 15,000               | 97.56                         | 108.97                         | 11.41                            | 11.70%                            |
| 16,000               | 98.46                         | 110.07                         | 11.61                            | 11.79%                            |
| 17,000               | 99.36                         | 111.17                         | 11.81                            | 11.89%                            |
| 18,000               | 100.26                        | 112.27                         | 12.01                            | 11.98%                            |
| 19,000               | 101.16                        | 113.37                         | 12.21                            | 12.07%                            |
| 20,000               | 102.06                        | 114.47                         | 12.41                            | 12.16%                            |
| 40,000               | 120.06                        | 136.47                         | 16.41                            | 13.67%                            |
| 80,000               | 156.06                        | 180.47                         | 24.41                            | 15.64%                            |
| 100,000              | 174.06                        | 202.47                         | 28.41                            | 16.32%                            |
| 2,341,000            | 2,190.96                      | 2,667.57                       | 476.61                           | 21.75%                            |
| 2,539,000            | 2,369.16                      | 2,885.37                       | 516.21                           | 21.79%                            |
| 5,295,000            | 4,849.56                      | 5,916.97                       | 1,067.41                         | 22.01%                            |
| 11,483,000           | 10,418.76                     | 12,723.77                      | 2,305.01                         | 22.12%                            |
| <b>Average Usage</b> |                               |                                |                                  |                                   |
| 6,726,800            | \$ 6,138.18                   | \$ 7,491.95                    | 1,353.77                         | 22.05%                            |
| <b>Median Usage</b>  |                               |                                |                                  |                                   |
| 9,109,000            | \$ 8,282.16                   | \$ 10,112.37                   | 1,830.21                         | 22.10%                            |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 84.06 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 999,999,999        | \$ 0.90  |
| Up to 999,999,999        | \$ 0.90  |
| Up to 999,999,999        | \$ 0.90  |
| Over 1,000,000,000       | \$ 0.90  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 92.47 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 25,000,000         | \$ 1.10  |
| Up to 25,000,001         | \$ 1.10  |
| Up to 25,000,001         | \$ 1.10  |
| Over 25,000,002          | \$ 1.10  |

**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Zone: 3 Inch Turf (P4M1T)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present<br/>Bill</u> | <u>Proposed<br/>Bill</u> | <u>Dollar<br/>Increase</u> | <u>Percent<br/>Increase</u> |
|--------------|-------------------------|--------------------------|----------------------------|-----------------------------|
| -            | \$ 84.06                | \$ 92.47                 | \$ 8.41                    | 10.00%                      |
| 1,000        | 84.96                   | 93.57                    | \$ 8.61                    | 10.13%                      |
| 2,000        | 85.86                   | 94.67                    | \$ 8.81                    | 10.26%                      |
| 3,000        | 86.76                   | 95.77                    | \$ 9.01                    | 10.38%                      |
| 4,000        | 87.66                   | 96.87                    | \$ 9.21                    | 10.51%                      |
| 5,000        | 88.56                   | 97.97                    | \$ 9.41                    | 10.63%                      |
| 6,000        | 89.46                   | 99.07                    | \$ 9.61                    | 10.74%                      |
| 7,000        | 90.36                   | 100.17                   | \$ 9.81                    | 10.86%                      |
| 8,000        | 91.26                   | 101.27                   | \$ 10.01                   | 10.97%                      |
| 9,000        | 92.16                   | 102.37                   | \$ 10.21                   | 11.08%                      |
| 10,000       | 93.06                   | 103.47                   | \$ 10.41                   | 11.19%                      |
| 11,000       | 93.96                   | 104.57                   | \$ 10.61                   | 11.29%                      |
| 12,000       | 94.86                   | 105.67                   | \$ 10.81                   | 11.40%                      |
| 13,000       | 95.76                   | 106.77                   | \$ 11.01                   | 11.50%                      |
| 14,000       | 96.66                   | 107.87                   | \$ 11.21                   | 11.60%                      |
| 15,000       | 97.56                   | 108.97                   | \$ 11.41                   | 11.70%                      |
| 16,000       | 98.46                   | 110.07                   | \$ 11.61                   | 11.79%                      |
| 17,000       | 99.36                   | 111.17                   | \$ 11.81                   | 11.89%                      |
| 18,000       | 100.26                  | 112.27                   | \$ 12.01                   | 11.98%                      |
| 19,000       | 101.16                  | 113.37                   | \$ 12.21                   | 12.07%                      |
| 20,000       | 102.06                  | 114.47                   | \$ 12.41                   | 12.16%                      |
| 40,000       | 120.06                  | 136.47                   | \$ 16.41                   | 13.67%                      |
| 80,000       | 156.06                  | 180.47                   | \$ 24.41                   | 15.64%                      |
| 100,000      | 174.06                  | 202.47                   | \$ 28.41                   | 16.32%                      |
| 335,000      | 385.56                  | 460.97                   | \$ 75.41                   | 19.56%                      |
| 607,000      | 630.36                  | 760.17                   | \$ 129.81                  | 20.59%                      |
| 886,000      | 881.46                  | 1,067.07                 | \$ 185.61                  | 21.06%                      |
| 1,406,000    | 1,349.46                | 1,639.07                 | \$ 289.61                  | 21.46%                      |

**Average Usage**

812,955 \$ 815.72 \$ 986.72 \$ 171.00 20.96%

**Median Usage**

607,000 \$ 630.36 \$ 760.17 \$ 129.81 20.59%

**Present Rates:**

Monthly Minimum: \$ 84.06

Gallons in Minimum -

**Charge Per 1,000 Gallons**

Up to 999,999,999 \$ 0.90

Up to 999,999,999 \$ 0.90

Up to 999,999,999 \$ 0.90

Over 1,000,000,000 \$ 0.90

**Proposed Rates:**

Monthly Minimum: \$ 92.47

Gallons in Minimum -

**Charge Per 1,000 Gallons**

Up to 25,000,000 \$ 1.10

Up to 25,000,001 \$ 1.10

Up to 25,000,001 \$ 1.10

Over 25,000,002 \$ 1.10



**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code      Paradise Valley Country Club (P2PVC)  
6 Inch

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u>  | <u>Present<br/>Bill</u> | <u>Proposed<br/>Bill</u> | <u>Dollar<br/>Increase</u> | <u>Percent<br/>Increase</u> |
|---------------|-------------------------|--------------------------|----------------------------|-----------------------------|
| -             | \$ 12,817.00            | \$ 15,665.22             | \$ 2,848.22                | 22.22%                      |
| 1,000         | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 2,000         | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 3,000         | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 4,000         | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 5,000         | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 6,000         | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 7,000         | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 8,000         | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 9,000         | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 10,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 11,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 12,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 13,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 14,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 15,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 16,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 17,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 18,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 19,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 20,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 40,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 80,000        | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 100,000       | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 5,852,000     | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| 21,949,000    | 12,817.00               | 15,665.22                | \$ 2,848.22                | 22.22%                      |
| Average Usage |                         |                          |                            |                             |
| 16,921,917    | \$ 12,817.00            | \$ 15,665.22             | \$ 2,848.22                | 22.22%                      |
| Median Usage  |                         |                          |                            |                             |
| 15,880,000    | \$ 12,817.00            | \$ 15,665.22             | \$ 2,848.22                | 22.22%                      |

**Present Rates:**

Monthly Minimum: \$ 12,817.00

Gallons in Minimum -

Charge Per 1,000 Gallons

Up to 999,999,999 \$ -

Up to 999,999,999 \$ -

Up to 999,999,999 \$ -

Over 1,000,000,000 \$ -

**Proposed Rates:**

Monthly Minimum: \$ 15,665.22

Gallons in Minimum -

Charge Per 1,000 Gallons

Up to 999,999,999 \$ -

Up to 999,999,999 \$ -

Up to 999,999,999 \$ -

Over 1,000,000,000 \$ -

**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code      5/8 Inch OWU/OPA (P5M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>Increase</u> |
|--------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| -            | \$ 8.41                       | \$ 9.26                        | \$ 0.85                          | 10.11%                            |
| 1,000        | 9.73                          | 10.72                          | \$ 0.99                          | 10.17%                            |
| 2,000        | 11.05                         | 12.18                          | \$ 1.13                          | 10.23%                            |
| 3,000        | 12.37                         | 13.64                          | \$ 1.27                          | 10.27%                            |
| 4,000        | 13.69                         | 15.10                          | \$ 1.41                          | 10.30%                            |
| 5,000        | 15.01                         | 16.56                          | \$ 1.55                          | 10.33%                            |
| 6,000        | 16.33                         | 18.02                          | \$ 1.69                          | 10.35%                            |
| 7,000        | 17.65                         | 19.48                          | \$ 1.83                          | 10.37%                            |
| 8,000        | 18.97                         | 20.94                          | \$ 1.97                          | 10.38%                            |
| 9,000        | 20.29                         | 22.40                          | \$ 2.11                          | 10.40%                            |
| 10,000       | 21.61                         | 23.86                          | \$ 2.25                          | 10.41%                            |
| 11,000       | 22.93                         | 25.32                          | \$ 2.39                          | 10.42%                            |
| 12,000       | 24.25                         | 26.78                          | \$ 2.53                          | 10.43%                            |
| 13,000       | 25.57                         | 28.24                          | \$ 2.67                          | 10.44%                            |
| 14,000       | 26.89                         | 29.70                          | \$ 2.81                          | 10.45%                            |
| 15,000       | 28.21                         | 31.16                          | \$ 2.95                          | 10.46%                            |
| 16,000       | 29.53                         | 32.62                          | \$ 3.09                          | 10.46%                            |
| 17,000       | 30.85                         | 34.08                          | \$ 3.23                          | 10.47%                            |
| 18,000       | 32.17                         | 35.54                          | \$ 3.37                          | 10.48%                            |
| 19,000       | 33.49                         | 37.00                          | \$ 3.51                          | 10.48%                            |
| 20,000       | 34.81                         | 38.46                          | \$ 3.65                          | 10.49%                            |
| 40,000       | 61.21                         | 67.66                          | \$ 6.45                          | 10.54%                            |
| 80,000       | 114.01                        | 126.06                         | \$ 12.05                         | 10.57%                            |
| 100,000      | 140.41                        | 155.26                         | \$ 14.85                         | 10.58%                            |

**Present Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 8.41 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 999,999,999        | \$ 1.32 |
| Up to 999,999,999        | \$ 1.32 |
| Up to 999,999,999        | \$ 1.32 |
| Over 1,000,000,000       | \$ 1.32 |

**Proposed Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 9.26 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 999,999,999        | \$ 1.46 |
| Up to 999,999,999        | \$ 1.46 |
| Up to 999,999,999        | \$ 1.46 |
| Over 1,000,000,000       | \$ 1.46 |

|               |          |          |         |        |
|---------------|----------|----------|---------|--------|
| Average Usage |          |          |         |        |
| 887           | \$ 9.58  | \$ 10.56 | \$ 0.97 | 10.17% |
| Median Usage  |          |          |         |        |
| 2,501         | \$ 11.71 | \$ 12.91 | \$ 1.20 | 10.25% |

**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code      1 Inch OWU/OPA (P5M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u>   | <u>Percent</u>  |
|--------------|----------------|-----------------|-----------------|-----------------|
|              | <u>Bill</u>    | <u>Bill</u>     | <u>Increase</u> | <u>Increase</u> |
| -            | \$ 14.01       | \$ 15.42        | \$ 1.41         | 10.06%          |
| 1,000        | 15.33          | 16.88           | \$ 1.55         | 10.11%          |
| 2,000        | 16.65          | 18.34           | \$ 1.69         | 10.15%          |
| 3,000        | 17.97          | 19.80           | \$ 1.83         | 10.18%          |
| 4,000        | 19.29          | 21.26           | \$ 1.97         | 10.21%          |
| 5,000        | 20.61          | 22.72           | \$ 2.11         | 10.24%          |
| 6,000        | 21.93          | 24.18           | \$ 2.25         | 10.26%          |
| 7,000        | 23.25          | 25.64           | \$ 2.39         | 10.28%          |
| 8,000        | 24.57          | 27.10           | \$ 2.53         | 10.30%          |
| 9,000        | 25.89          | 28.56           | \$ 2.67         | 10.31%          |
| 10,000       | 27.21          | 30.02           | \$ 2.81         | 10.33%          |
| 11,000       | 28.53          | 31.48           | \$ 2.95         | 10.34%          |
| 12,000       | 29.85          | 32.94           | \$ 3.09         | 10.35%          |
| 13,000       | 31.17          | 34.40           | \$ 3.23         | 10.36%          |
| 14,000       | 32.49          | 35.86           | \$ 3.37         | 10.37%          |
| 15,000       | 33.81          | 37.32           | \$ 3.51         | 10.38%          |
| 16,000       | 35.13          | 38.78           | \$ 3.65         | 10.39%          |
| 17,000       | 36.45          | 40.24           | \$ 3.79         | 10.40%          |
| 18,000       | 37.77          | 41.70           | \$ 3.93         | 10.41%          |
| 19,000       | 39.09          | 43.16           | \$ 4.07         | 10.41%          |
| 20,000       | 40.41          | 44.62           | \$ 4.21         | 10.42%          |
| 40,000       | 66.81          | 73.82           | \$ 7.01         | 10.49%          |
| 80,000       | 119.61         | 132.22          | \$ 12.61        | 10.54%          |
| 81,000       | 120.93         | 133.68          | \$ 12.75        | 10.54%          |
| 82,000       | 122.25         | 135.14          | \$ 12.89        | 10.54%          |
| 83,000       | 123.57         | 136.60          | \$ 13.03        | 10.54%          |
| 84,000       | 124.89         | 138.06          | \$ 13.17        | 10.55%          |
| 85,000       | 126.21         | 139.52          | \$ 13.31        | 10.55%          |
| 86,000       | 127.53         | 140.98          | \$ 13.45        | 10.55%          |
| 87,000       | 128.85         | 142.44          | \$ 13.59        | 10.55%          |
| 88,000       | 130.17         | 143.90          | \$ 13.73        | 10.55%          |
| 89,000       | 131.49         | 145.36          | \$ 13.87        | 10.55%          |
| 90,000       | 132.81         | 146.82          | \$ 14.01        | 10.55%          |
| 91,000       | 134.13         | 148.28          | \$ 14.15        | 10.55%          |
| 92,000       | 135.45         | 149.74          | \$ 14.29        | 10.55%          |
| 145,000      | 205.41         | 227.12          | \$ 21.71        | 10.57%          |
| 303,000      | 413.97         | 457.80          | \$ 43.83        | 10.59%          |
| 505,000      | 680.61         | 752.72          | \$ 72.11        | 10.59%          |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 14.01 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 999,999,999        | \$ 1.32  |
| Up to 999,999,999        | \$ 1.32  |
| Up to 999,999,999        | \$ 1.32  |
| Over 1,000,000,000       | \$ 1.32  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 15.42 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 999,999,999        | \$ 1.46  |
| Up to 999,999,999        | \$ 1.46  |
| Up to 999,999,999        | \$ 1.46  |
| Over 1,000,000,000       | \$ 1.46  |

**Average Usage**

45,542 \$ 74.12 \$ 81.91 \$ 7.79 10.50%

**Median Usage**

3,001 \$ 17.97 \$ 19.80 \$ 1.83 10.18%

Arizona-American Water Company /Paradise Valley Water District

Bill Comparison Present and Proposed Rates

Meter Size and Code 2 Inch OWU/OPA (P5M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u>   | <u>Percent</u>  |
|--------------|----------------|-----------------|-----------------|-----------------|
|              | <u>Bill</u>    | <u>Bill</u>     | <u>Increase</u> | <u>Increase</u> |
| -            | \$ 44.83       | \$ 49.32        | \$ 4.49         | 10.02%          |
| 1,000        | 46.15          | 50.78           | \$ 4.63         | 10.03%          |
| 2,000        | 47.47          | 52.24           | \$ 4.77         | 10.05%          |
| 3,000        | 48.79          | 53.70           | \$ 4.91         | 10.06%          |
| 4,000        | 50.11          | 55.16           | \$ 5.05         | 10.08%          |
| 5,000        | 51.43          | 56.62           | \$ 5.19         | 10.09%          |
| 6,000        | 52.75          | 58.08           | \$ 5.33         | 10.10%          |
| 7,000        | 54.07          | 59.54           | \$ 5.47         | 10.12%          |
| 8,000        | 55.39          | 61.00           | \$ 5.61         | 10.13%          |
| 9,000        | 56.71          | 62.46           | \$ 5.75         | 10.14%          |
| 10,000       | 58.03          | 63.92           | \$ 5.89         | 10.15%          |
| 11,000       | 59.35          | 65.38           | \$ 6.03         | 10.16%          |
| 12,000       | 60.67          | 66.84           | \$ 6.17         | 10.17%          |
| 13,000       | 61.99          | 68.30           | \$ 6.31         | 10.18%          |
| 14,000       | 63.31          | 69.76           | \$ 6.45         | 10.19%          |
| 15,000       | 64.63          | 71.22           | \$ 6.59         | 10.20%          |
| 16,000       | 65.95          | 72.68           | \$ 6.73         | 10.20%          |
| 17,000       | 67.27          | 74.14           | \$ 6.87         | 10.21%          |
| 18,000       | 68.59          | 75.60           | \$ 7.01         | 10.22%          |
| 19,000       | 69.91          | 77.06           | \$ 7.15         | 10.23%          |
| 20,000       | 71.23          | 78.52           | \$ 7.29         | 10.23%          |
| 40,000       | 97.63          | 107.72          | \$ 10.09        | 10.33%          |
| 80,000       | 150.43         | 166.12          | \$ 15.69        | 10.43%          |
| 123,000      | 207.19         | 228.90          | \$ 21.71        | 10.48%          |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 44.83 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 999,999,999        | \$ 1.32  |
| Up to 999,999,999        | \$ 1.32  |
| Up to 999,999,999        | \$ 1.32  |
| Over 1,000,000,000       | \$ 1.32  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 49.32 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 999,999,999        | \$ 1.46  |
| Up to 999,999,999        | \$ 1.46  |
| Up to 999,999,999        | \$ 1.46  |
| Over 1,000,000,000       | \$ 1.46  |

|               |          |          |         |        |
|---------------|----------|----------|---------|--------|
| Average Usage |          |          |         |        |
| 21,000        | \$ 72.55 | \$ 79.98 | \$ 7.43 | 10.24% |
| Median Usage  |          |          |         |        |
| 9,501         | \$ 57.37 | \$ 63.19 | \$ 5.82 | 10.14% |

**Arizona-American Water Company /Paradise Valley Water District**  
**Bill Comparison Present and Proposed Rates**  
Meter Size and Code      5/8 Inch Fire (P6M1A)

Exhibit  
Rebuttal Schedule H-4  
Page 23  
Witness: Kozoman

| <u>Usage</u> |    | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>Increase</u> |
|--------------|----|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| -            | \$ | 5.00                          | \$ 5.00                        | \$ -                             | 0.00%                             |
| 1,000        |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 2,000        |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 3,000        |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 4,000        |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 5,000        |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 6,000        |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 7,000        |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 8,000        |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 9,000        |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 10,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 11,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 12,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 13,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 14,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 15,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 16,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 17,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 18,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 19,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 20,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 40,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 80,000       |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 100,000      |    | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |

**Present Rates:**

|                          |               |      |
|--------------------------|---------------|------|
| Monthly Minimum:         | \$            | 5.00 |
| Gallons in Minimum       |               | -    |
| Charge Per 1,000 Gallons |               |      |
| Up to                    | 999,999,999   | \$ - |
| Up to                    | 999,999,999   | \$ - |
| Up to                    | 999,999,999   | \$ - |
| Over                     | 1,000,000,000 | \$ - |

**Proposed Rates:**

|                          |               |      |
|--------------------------|---------------|------|
| Monthly Minimum:         | \$            | 5.00 |
| Gallons in Minimum       |               | -    |
| Charge Per 1,000 Gallons |               |      |
| Up to                    | 999,999,999   | \$ - |
| Up to                    | 999,999,999   | \$ - |
| Up to                    | 999,999,999   | \$ - |
| Over                     | 1,000,000,000 | \$ - |

|               |    |      |         |      |       |
|---------------|----|------|---------|------|-------|
| Average Usage |    |      |         |      |       |
| 136           | \$ | 5.00 | \$ 5.00 | \$ - | 0.00% |
| Median Usage  |    |      |         |      |       |
| -             | \$ | 5.00 | \$ 5.00 | \$ - | 0.00% |

**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code      3/4 Inch Fire (P6M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u>   | <u>Percent</u>  |
|--------------|----------------|-----------------|-----------------|-----------------|
|              | <u>Bill</u>    | <u>Bill</u>     | <u>Increase</u> | <u>Increase</u> |
| -            | \$ 5.00        | \$ 5.00         | \$ -            | 0.00%           |
| 1,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 2,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 3,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 4,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 5,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 6,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 7,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 8,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 9,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 10,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 11,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 12,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 13,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 14,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 15,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 16,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 17,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 18,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 19,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 20,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 40,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 80,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 100,000      | 5.00           | 5.00            | \$ -            | 0.00%           |

**Present Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 5.00 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 999,999,999        | \$ -    |
| Up to 999,999,999        | \$ -    |
| Up to 999,999,999        | \$ -    |
| Over 1,000,000,000       | \$ -    |

**Proposed Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 5.00 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 999,999,999        | \$ -    |
| Up to 999,999,999        | \$ -    |
| Up to 999,999,999        | \$ -    |
| Over 1,000,000,000       | \$ -    |

|               |         |         |      |       |  |
|---------------|---------|---------|------|-------|--|
| Average Usage |         |         |      |       |  |
| -             | \$ 5.00 | \$ 5.00 | \$ - | 0.00% |  |
| Median Usage  |         |         |      |       |  |
| -             | \$ 5.00 | \$ 5.00 | \$ - | 0.00% |  |

**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code      1 Inch Fire (P6M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>Increase</u> |
|--------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| -            | \$ 5.00                       | \$ 5.00                        | \$ -                             | 0.00%                             |
| 1,000        | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 2,000        | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 3,000        | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 4,000        | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 5,000        | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 6,000        | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 7,000        | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 8,000        | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 9,000        | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 10,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 11,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 12,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 13,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 14,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 15,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 16,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 17,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 18,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 19,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 20,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 40,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 80,000       | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |
| 100,000      | 5.00                          | 5.00                           | \$ -                             | 0.00%                             |

**Present Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 5.00 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 999,999,999        | \$ -    |
| Up to 999,999,999        | \$ -    |
| Up to 999,999,999        | \$ -    |
| Over 1,000,000,000       | \$ -    |

**Proposed Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 5.00 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 999,999,999        | \$ -    |
| Up to 999,999,999        | \$ -    |
| Up to 999,999,999        | \$ -    |
| Over 1,000,000,000       | \$ -    |

|               |      |         |      |       |  |
|---------------|------|---------|------|-------|--|
| Average Usage |      |         |      |       |  |
| - \$          | 5.00 | \$ 5.00 | \$ - | 0.00% |  |
| Median Usage  |      |         |      |       |  |
| - \$          | 5.00 | \$ 5.00 | \$ - | 0.00% |  |

Arizona-American Water Company /Paradise Valley Water District

Bill Comparison Present and Proposed Rates

Meter Size and Code 2 Inch Fire (P6M1A)

Exhibit

Rebuttal Schedule H-4

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Witness: Kozoman

| <u>Usage</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u>   | <u>Percent</u>  |
|--------------|----------------|-----------------|-----------------|-----------------|
|              | <u>Bill</u>    | <u>Bill</u>     | <u>Increase</u> | <u>Increase</u> |
| -            | \$ 5.00        | \$ 5.00         | \$ -            | 0.00%           |
| 1,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 2,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 3,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 4,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 5,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 6,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 7,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 8,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 9,000        | 5.00           | 5.00            | \$ -            | 0.00%           |
| 10,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 11,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 12,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 13,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 14,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 15,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 16,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 17,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 18,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 19,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 20,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 40,000       | 5.00           | 5.00            | \$ -            | 0.00%           |
| 100,000      | 5.00           | 5.00            | \$ -            | 0.00%           |

**Present Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 5.00 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 999,999,999        | \$ -    |
| Up to 999,999,999        | \$ -    |
| Up to 999,999,999        | \$ -    |
| Over 1,000,000,000       | \$ -    |

**Proposed Rates:**

|                          |         |
|--------------------------|---------|
| Monthly Minimum:         | \$ 5.00 |
| Gallons in Minimum       | -       |
| Charge Per 1,000 Gallons |         |
| Up to 999,999,999        | \$ -    |
| Up to 999,999,999        | \$ -    |
| Up to 999,999,999        | \$ -    |
| Over 1,000,000,000       | \$ -    |

Average Usage

14 \$ 5.00 \$ 5.00 \$ - 0.00%

Median Usage

- \$ 5.00 \$ 5.00 \$ - 0.00%



**Arizona-American Water Company /Paradise Valley Water District**

**Bill Comparison Present and Proposed Rates**

Meter Size and Code      3 Inch Irrigation (P7M1A)

Exhibit

Rebuttal Schedule H-4

Page 27

Witness: Kozoman

| <u>Usage</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u>   | <u>Percent</u>  |
|--------------|----------------|-----------------|-----------------|-----------------|
|              | <u>Bill</u>    | <u>Bill</u>     | <u>Increase</u> | <u>Increase</u> |
| -            | \$ 84.06       | \$ 92.47        | \$ 8.41         | 10.00%          |
| 1,000        | 85.38          | 93.93           | \$ 8.55         | 10.01%          |
| 2,000        | 86.70          | 95.39           | \$ 8.69         | 10.02%          |
| 3,000        | 88.02          | 96.85           | \$ 8.83         | 10.03%          |
| 4,000        | 89.34          | 98.31           | \$ 8.97         | 10.04%          |
| 5,000        | 90.66          | 99.77           | \$ 9.11         | 10.05%          |
| 6,000        | 91.98          | 101.23          | \$ 9.25         | 10.06%          |
| 7,000        | 93.30          | 102.69          | \$ 9.39         | 10.06%          |
| 8,000        | 94.62          | 104.15          | \$ 9.53         | 10.07%          |
| 9,000        | 95.94          | 105.61          | \$ 9.67         | 10.08%          |
| 10,000       | 97.26          | 107.07          | \$ 9.81         | 10.09%          |
| 11,000       | 98.58          | 108.53          | \$ 9.95         | 10.09%          |
| 12,000       | 99.90          | 109.99          | \$ 10.09        | 10.10%          |
| 13,000       | 101.22         | 111.45          | \$ 10.23        | 10.11%          |
| 14,000       | 102.54         | 112.91          | \$ 10.37        | 10.11%          |
| 15,000       | 103.86         | 114.37          | \$ 10.51        | 10.12%          |
| 16,000       | 105.18         | 115.83          | \$ 10.65        | 10.13%          |
| 17,000       | 106.50         | 117.29          | \$ 10.79        | 10.13%          |
| 18,000       | 107.82         | 118.75          | \$ 10.93        | 10.14%          |
| 19,000       | 109.14         | 120.21          | \$ 11.07        | 10.14%          |
| 20,000       | 110.46         | 121.67          | \$ 11.21        | 10.15%          |
| 40,000       | 136.86         | 150.87          | \$ 14.01        | 10.24%          |
| 80,000       | 189.66         | 209.27          | \$ 19.61        | 10.34%          |
| 100,000      | 216.06         | 238.47          | \$ 22.41        | 10.37%          |

**Present Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 84.06 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 999,999,999        | \$ 1.32  |
| Up to 999,999,999        | \$ 1.32  |
| Up to 999,999,999        | \$ 1.32  |
| Over 1,000,000,000       | \$ 1.32  |

**Proposed Rates:**

|                          |          |
|--------------------------|----------|
| Monthly Minimum:         | \$ 92.47 |
| Gallons in Minimum       | -        |
| Charge Per 1,000 Gallons |          |
| Up to 999,999,999        | \$ 1.46  |
| Up to 999,999,999        | \$ 1.46  |
| Up to 999,999,999        | \$ 1.46  |
| Over 1,000,000,000       | \$ 1.46  |

|               |       |          |         |        |
|---------------|-------|----------|---------|--------|
| Average Usage |       |          |         |        |
| - \$          | 84.06 | \$ 92.47 | \$ 8.41 | 10.00% |
| Median Usage  |       |          |         |        |
| - \$          | 84.06 | \$ 92.47 | \$ 8.41 | 10.00% |

## Various Meter Sizes

## Size

**Other Meter: Sales for Resale**

**Exhibit**  
**Rebuttal Schedule H-4**  
**Page**  
**Witness: Kozoman**

28

[illegible]

| Month | 5/8     | 3/4     | 1        | 1.5      | 2        | 3        | 4         | 6         |
|-------|---------|---------|----------|----------|----------|----------|-----------|-----------|
| 12    | \$ 9.26 | \$ 9.62 | \$ 15.42 | \$ 30.83 | \$ 49.32 | \$ 92.47 | \$ 154.11 | \$ 308.22 |
| 13    | \$ 9.26 | \$ 9.62 | \$ 15.42 | \$ 30.83 | \$ 49.32 | \$ 92.47 | \$ 154.11 | \$ 308.22 |
| 14    | \$ 9.26 | \$ 9.62 | \$ 15.42 | \$ 30.83 | \$ 49.32 | \$ 92.47 | \$ 154.11 | \$ 308.22 |
| 15    | \$ 9.26 | \$ 9.62 | \$ 15.42 | \$ 30.83 | \$ 49.32 | \$ 92.47 | \$ 154.11 | \$ 308.22 |
| 16    | \$ 9.26 | \$ 9.62 | \$ 15.42 | \$ 30.83 | \$ 49.32 | \$ 92.47 | \$ 154.11 | \$ 308.22 |
| 17    | \$ 9.26 | \$ 9.62 | \$ 15.42 | \$ 30.83 | \$ 49.32 | \$ 92.47 | \$ 154.11 | \$ 308.22 |
| 18    | \$ 9.26 | \$ 9.62 | \$ 15.42 | \$ 30.83 | \$ 49.32 | \$ 92.47 | \$ 154.11 | \$ 308.22 |
| 19    | \$ 9.26 | \$ 9.62 | \$ 15.42 | \$ 30.83 | \$ 49.32 | \$ 92.47 | \$ 154.11 | \$ 308.22 |
| 20    | \$ 9.26 | \$ 9.62 | \$ 15.42 | \$ 30.83 | \$ 49.32 | \$ 92.47 | \$ 154.11 | \$ 308.22 |
| 21    | \$ 9.26 | \$ 9.62 | \$ 15.42 | \$ 30.83 | \$ 49.32 | \$ 92.47 | \$ 154.11 | \$ 308.22 |

| Revenues from Monthly Minimums Rates |           |           |           |           |           |           |           |           |           |           |           |           |             |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|
| 5/8                                  | \$ 64.82  | \$ 37.04  | \$ 55.56  | \$ 46.30  | \$ 27.78  | \$ 46.30  | \$ 46.30  | \$ 46.30  | \$ 46.30  | \$ 46.30  | \$ 46.30  | \$ 46.30  | \$ 27.78    |
| 3/4                                  |           |           |           |           |           |           |           |           |           |           |           |           |             |
| 1                                    | 308.40    | 154.20    | 154.20    | 154.20    | 61.68     | 246.72    | 77.10     | 92.52     | 246.72    | 123.36    | 92.52     | 138.78    |             |
| 1.5                                  |           |           |           |           |           |           |           |           |           |           |           |           |             |
| 2                                    | 345.24    | 197.28    | 197.28    | 197.28    | 197.28    | 197.28    | 197.28    | 49.32     | 345.24    | 197.28    | 49.32     | 197.28    |             |
| 3                                    |           |           |           |           |           |           |           |           |           |           |           |           |             |
| 4                                    |           |           |           |           |           |           |           |           |           |           |           |           |             |
| 6                                    |           |           |           |           |           |           |           |           |           |           |           |           |             |
| TOTAL                                | \$ 718.46 | \$ 388.52 | \$ 407.04 | \$ 397.78 | \$ 286.74 | \$ 490.30 | \$ 320.68 | \$ 188.14 | \$ 638.26 | \$ 366.94 | \$ 188.14 | \$ 363.84 | \$ 4,754.84 |

[illegible]

|                                      | 18.83    | 565      |
|--------------------------------------|----------|----------|
| Dollar Change from Present Rates     | \$97.13  | \$147.67 |
| Percentage Change from Present Rates | 10.40%   | 10.37%   |
| Average Number of Customers          | \$231.14 | \$108.95 |
| Average Usage                        | \$55.28  | \$98.70  |
|                                      | \$147.75 | \$95.26  |
|                                      | 10.46%   | 10.38%   |
|                                      | 10.45%   | 10.43%   |
|                                      | 10.43%   | 10.43%   |
|                                      | 10.43%   | 10.43%   |
|                                      | 10.46%   | 10.43%   |
|                                      | 10.41%   | 10.37%   |
|                                      | \$83.04  | \$48.14  |

EXHIBIT

A-15

admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS PARADISE  
VALLEY DISTRICT.

DOCKET NO. WS-01303A-05-0405

REBUTTAL TESTIMONY  
OF  
JOEL M. REIKER  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
FEBRUARY 13, 2006

**REBUTTAL TESTIMONY  
OF  
JOEL M. REIKER  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
FEBRUARY 13, 2006**

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5 EXHIBITS

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**EXECUTIVE SUMMARY**

The direct testimony of Company witness Joel M. Reiker addresses the following issues:

Mr. Reiker adopts portions of the direct testimony of Company witness David Stephenson related to rate base, the cost of debt, capital structure, and various test year expense adjustments. Mr. Reiker also responds to the direct testimony of Arizona Corporation Commission Staff witnesses Igwe and Dorf, and Residential Utility Consumer Office ("RUCO") witnesses Moore and Coley.

Mr. Reiker presents Arizona-American Water's updated proposed revenue requirement for Paradise Valley, which is \$5,607,523. This represents a \$528,328 increase over adjusted test year revenues, or 10.40%. This change in the Company's proposed revenue increase is largely due to the Company's acceptance of Staff's recommendation to include in rate base, public safety/fire flow related plant improvements added after the test year, as well as additional adjustments proposed by the Company.

Mr. Reiker explains why the Company cannot accept several of Staff's rate base and income statement adjustments including the following: Staff Rate Base Adjustment 1 to eliminate plant held for emergency use; Staff Rate Base Adjustment 4 to eliminate deferred maintenance; Staff Rate Base Adjustment 5 to eliminate working cash; Staff Income Statement 2 to reduce purchased power expense; Staff Income Statement Adjustment 5 to reduce rate case expense; and Staff Income Statement Adjustment 6 to eliminate allocated expenses.

Mr. Reiker explains why the Company cannot accept several of RUCO's rate base and income statement adjustments, including the following: RUCO Rate Base Adjustment 1 to eliminate plant held for emergency use; RUCO Rate Base Adjustment 2/RUCO Income Statement Adjustment 8 regarding the Company's proposal to share 50% of the gain on the sale of land with customers; RUCO Rate Base Adjustment 4 to reduce working capital; RUCO Income Statement 5 to reduce rate case expense; RUCO Income Statement Adjustments 9 and 10 to reduce property taxes.

**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.**

A. My name is Joel M. Reiker. I am a Regulatory Analyst employed by American Water Works Service Company ("American Water") in its Western Region. My business address is 19820 North 7<sup>th</sup> Street, Suite 201, Phoenix, Arizona 85024-1694. My telephone number is (623) 445-2490.

**Q. BRIEFLY DESCRIBE YOUR RESPONSIBILITIES WITH AMERICAN WATER.**

A. In my capacity as a Regulatory Analyst with American Water, I am responsible for the preparation of regulatory filings for our Western Region subsidiaries. Our Western Region subsidiaries include Arizona-American Water Company ("Arizona-American" or "Company"), California-American Water Company, Hawaii-American Water Company, New Mexico-American Water Company, and Texas-American Water Company.

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.**

A. In 1998, I graduated cum laude from the Arizona State University School of Management, receiving a Bachelor of Science degree in global business with a specialization in financial management. My course of studies included classes in corporate and international finance, investments, accounting, statistics, and economics. From 1999 to 2005, I was employed by the Arizona Corporation Commission ("Commission") as a Staff Rate Analyst in the Utilities Division. While at the Commission, I provided recommendations regarding rate of return, mergers and acquisitions, divestitures, and financings, and I occasionally acted as an arbitrator in



1 disputes brought before the Utilities Division. I have attended various educational  
2 programs and classes on regulatory and business issues, including the National  
3 Association of Regulatory Utility Commissioners and the Institute of Public Utilities'  
4 Regulatory Studies Program at Michigan State University. I have participated in over  
5 fifty regulatory proceedings. Appendix A contains a listing of my regulatory experience.

6  
7 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
8 **CASE?**

9 A. I adopt portions of the direct testimony of Company witness David P. Stephenson in this  
10 case. Those areas include Paradise Valley's rate base and associated adjustments, the  
11 cost of debt, capital structure, and various test year expense adjustments. In addition to  
12 adopting portions of Mr. Stephenson's direct testimony, I respond to the direct testimony  
13 of Arizona Corporation Commission ("ACC") Staff witnesses Igwe and Dorf, and  
14 Residential Utility Consumer Office ("RUCO") witnesses Moore and Coley.

15  
16 **Q. PLEASE DISCUSS YOUR HISTORY WITH AMERICAN WATER AND YOUR**  
17 **ROLE WITHIN AMERICAN WATER'S NEWLY-FORMED ARIZONA RATES**  
18 **AND REGULATION TEAM.**

19 A. I began my employment with American Water in January 2005 after working as an ACC  
20 Staff rate analyst for approximately five and one-half years. I joined the Company in the  
21 wake of what many of my current colleagues considered to be among the most  
22 disappointing regulatory results in the American Water family of subsidiaries. The  
23 Company's 2002 general rate case, in which I appeared as a Staff witness, lead in part, to  
24 a number of changes in the face of a deteriorating financial situation for Arizona-

1 American Water. Those changes included the development of what will ultimately be a  
2 fully-staffed Arizona-based Rates & Regulation team, including an in-house regulatory  
3 attorney, and experts in the fields of cost of service, rate design, and cost of capital. The  
4 structural changes are on-going and should lead to ever-increasing efficiencies with each  
5 case we file in the coming months and years. The already-strained resources of Staff,  
6 RUCO and other parties to these cases will ultimately benefit from the ability to interact  
7 with Company representatives directly and informally. In a sense, we are a new company  
8 - albeit faced with the task of greatly improving our financial condition. We simply  
9 cannot accomplish this task without cooperating with Staff and RUCO in the most  
10 professional manner. Throughout the course of Staff's and RUCO's initial review in this  
11 case, we have made a concerted effort to be available to respond to informal clarifications  
12 of data requests and help to resolve issues of disagreement. We have stumbled at times,  
13 but I believe we are improving as resources are added and knowledge gained.

14  
15 **Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?**

16 **A.** My testimony is presented in four sections. In section two, I present the Company's  
17 updated revenue requirement. In section three, I address rate base and respond to the  
18 direct testimony of Staff witness James J. Dorf and Ruco witness Timothy J. Coley. In  
19 Section four, I address the income statement and associated adjustments, and respond to  
20 the direct testimony of Staff witness Alexander Ibhade Igwe and RUCO witness Rodney  
21 L. Moore.  
22

**II. REVENUE REQUIREMENT**

**Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED REVENUE REQUIREMENT AND ASSOCIATED INCREASE, AS WELL AS THOSE OF STAFF AND RUCO.**

**A.** The proposed revenue requirements and associated increases are summarized in the following table:

Table 1

|                  | Revenue Requirement | Revenue Increase/(Decrease) | Percent Increase |
|------------------|---------------------|-----------------------------|------------------|
| Company-Direct   | \$5,348,660         | \$277,980                   | 5.48%            |
| Staff            | \$5,269,700         | \$199,020                   | 3.92%            |
| RUCO             | \$4,628,319         | (\$442,361)                 | -8.72%           |
| Company Rebuttal | \$5,607,523         | \$528,328                   | 10.40%           |

As shown in the above table, the Company has revised its proposed overall revenue increase to 10.40 percent, from its original 5.48 percent. The Company's revised revenue requirement is summarized in Schedule JMR-RB1, and supported by Schedules JMR-RB2 through JMR-RB5. The updated revenue requirement shown above incorporates many of the adjustments recommended by Staff and RUCO, as well as additional adjustments proposed by the Company.

**Q. THE COMPANY'S ORIGINAL RATE APPLICATION SOUGHT A BASE RATE INCREASE OF 5.48 PERCENT. THE COMPANY'S REVISED BASE RATE INCREASE IS 10.40 PERCENT. HOW CAN THIS BE, GIVEN THAT THE COMPANY ACCEPTS MANY OF STAFF'S AND RUCO'S ADJUSTMENTS?**

1 A. The Company's original application also sought an estimated Step 1 increase in the Public  
2 Safety surcharge ("PSS") of approximately \$581,830 or 11.47 percent, effective at the  
3 same time as new permanent rates in this case - a total increase of about 16.95 percent  
4 when the base rate increase is added. Because the Commission Staff recommends, and  
5 the Company accepts, the inclusion of public safety/fire flow improvement projects  
6 added to date in base rates, the Step-1 PSS increase is now included in the base rate  
7 increase. In other words, the Company's requested rate increase effective upon new  
8 permanent rates in this case is no longer 16.95 percent but is 10.40 percent.

9  
10 Q. DOESN'T THIS MEAN THAT, BUT FOR THE PUBLIC SAFETY/FIRE FLOW  
11 RATE BASE ADDITIONS, THE COMPANY IS PROPOSING LITTLE, IF ANY,  
12 RATE INCREASE?

13 A. Yes, that is a reasonable way to look at it. The Company's revised base rate increase is  
14 related almost entirely to those now-completed public safety/fire flow projects. It is  
15 important for the Commission to keep this overall fact in mind as it delves into the  
16 myriad of adjustments in this case.

17  
18 However, this fact will not repeat for several upcoming rate cases in the Company's other  
19 districts. Those other districts are former Citizens properties, which have a legacy of  
20 plant currently excluded from rate base. Such plant will be brought into rate base in the  
21 coming years as per a prior settlement with the Commission.  
22

**III. RATE BASE**

**Q. PLEASE SUMMARIZE THE COMPANY'S, STAFF'S, AND RUCO'S  
PROPOSED RATE BASES.**

**A.** The parties' proposed rate bases are summarized in the following table:

Table 2

|                  | Original Cost/Fair<br>Value Rate Base |
|------------------|---------------------------------------|
| Company-Direct   | \$11,651,216                          |
| Staff            | \$14,165,666                          |
| RUCO             | \$10,898,953                          |
| Company Rebuttal | \$15,166,114                          |

**A. Response to the Direct Testimony of Staff Witness Dorf**

*Staff Rate Base Adjustment 1: Plant Held for Future Use*

**Q. DOES THE COMPANY ACCEPT STAFF RATE BASE ADJUSTMENT 1, TO  
EXCLUDE FROM RATE BASE PLANT HELD FOR FUTURE USE (DORF  
DIRECT, P. 3 AT 22 – 26 & P. 4 AT 1 – 6)?**

**A.** No. The Company does not accept Staff Rate Base Adjustment 1 to exclude from rate base certain backup plant items (submersible pumps and motors) located at Well 17 which are accounted for as plant held for future use. These items should be included in rate base because by maintaining these items for use in case of an emergency, the possibility of an extended interruption in service is significantly reduced.

**Q. ARE THESE ITEMS CURRENTLY IN RATE BASE?**

**A.** Yes. In Decision No. 59079, dated May 5, 1995 (attached hereto as Exhibit JMR-RB1) the Commission found useful and prudent the Company's decision to maintain for

1 backup purposes plant held for future use. Again in Decision No. 61831, dated July 20,  
2 1999, (Paradise Valley's most recent rate case) the Commission included \$168,129 of  
3 plant held for future use in rate base. This amount is currently in rate base and earning a  
4 return.

5  
6 **Q. HOW DOES THE COMPANY RESPOND TO STAFF'S TESTIMONY THAT**  
7 **"THE COMPANY HAS EVIDENTLY NOT USED THIS EQUIPMENT IN OVER**  
8 **TEN YEARS." AND HAS NOT INFORMED STAFF OF ANY DEFINITIVE**  
9 **PLAN TO USE THIS EQUIPMENT?**

10 A. Certain backup plant items located at Well 17 were, in fact, temporarily placed into  
11 service at Well 16 during the test year when the motor at that well failed, thus  
12 exemplifying the benefit of maintaining such backup equipment for our customers. The  
13 Commission foresaw such a benefit in its 1995 rate decision, and nothing over the course  
14 of time has reduced the customer benefit of maintaining these items. Arizona-American  
15 Water has a definitive plan to maintain quality, uninterrupted service to its customers in  
16 Paradise Valley. Maintaining these backup plant items is an integral part of that plan.

17  
18 **Q. DOES PARADISE VALLEY CONTINUE TO RELY ON ITS PLANT HELD FOR**  
19 **FUTURE USE TO REDUCE THE RISK OF A SIGNIFICANT INTERRUPTION**  
20 **IN SERVICE TO ITS CUSTOMERS?**

21 A. Yes. In particular, the network supervisor in Paradise Valley informs me that the  
22 Company continues to rely, as it did in 2004, on its plant held for future use to reduce the  
23 possibility of a significant interruption in the summer. Absent the ability to place backup  
24 plant into service on short notice, the Company would immediately be forced to restrict

1 service to The Camelback Inn, Mountain Shadows Resort, and the Paradise Valley  
2 Country Club in the event a system repair was needed.

3  
4 Paradise Valley's plant held for future use is held for service in the future as emergency  
5 backup equipment. Such a definitive plan satisfies the requirement of the NARUC  
6 Uniform System of Accounts ("USOA") as referenced by Staff. In addition, Paradise  
7 Valley's plant held for future use is both used and useful. The Company requests that the  
8 Staff reconsider its position and support Arizona-American Water's request to include  
9 this item in rate base, as the Commission has done in the past.

10  
11 *Staff Rate Base Adjustment 2: Public Safety Plant Additions*

12 **Q. DOES THE COMPANY ACCEPT STAFF RATE BASE ADJUSTMENT 2 TO**  
13 **INCLUDE IN RATE BASE \$3,018,867 OF NET PUBLIC SAFETY PLANT**  
14 **(JACKRABBIT/INVERGORDON AND MCDONALD MAINS) ADDED AFTER**  
15 **THE END OF THE TEST YEAR?**

16 **A.** Yes. The Company appreciates and will accept Staff's adjustment to include post-test  
17 year plant in rate base. However, we propose minor changes to the amount.

18  
19 **Q. WHAT CHANGES DOES THE COMPANY PROPOSE?**

20 **A.** The Company proposes to adjust the \$3,018,867 amount to reflect an additional \$105,164  
21 related to various additional items which have closed to the Jackrabbit/Invergordon and  
22 McDonald main work orders. These additional amounts include contractual services and  
23 AFUDC. The work orders are now closed and the cost of these improvements is final.  
24 These additional amounts are reflected in Company Rate Base Adjustment AAW-2,

1 shown on Schedule JMR-RB3, page 1, column D, and all supporting documentation is  
2 attached hereto as Exhibit JMR-RB2.

3  
4 **Q. WHY IS IT NECESSARY TO INCLUDE THESE ADDITIONAL AMOUNTS?**

5 A. It is necessary to include these additional amounts because they are prudent and absent  
6 recognition as post-test year plant related to the Jackrabbit/Invergordon and McDonald  
7 main work orders, the Company fears they may never be recovered. This would occur if  
8 in Paradise Valley's next rate case, utility plant in service was a function of plant  
9 balances approved in this case adjusted for subsequent additions and retirements.

10  
11 *Staff Rate Base Adjustment 3: Accumulated Depreciation*

12 **Q. DOES THE COMPANY ACCEPT STAFF RATE BASE ADJUSTMENT 3 TO**  
13 **INCREASE ACCUMULATED DEPRECIATION BY \$107,315 TO REFLECT**  
14 **ADDITIONS, RETIREMENTS, AND DEPRECIATION EXPENSE SINCE**  
15 **PARADISE VALLEY'S LAST RATE CASE?**

16 A. Yes. The Company worked with Staff informally to resolve this issue prior to the filing  
17 of Staff's testimony and as a result, this issue is settled. The Company's acceptance of  
18 this adjustment is reflected in Company Rate Base Adjustment AAW-4, shown on  
19 Schedule JMR-EB3, page 1, column F.

20  
21 *Staff Rate Base Adjustment 4: Deferred Maintenance*

22 **Q. DOES THE COMPANY ACCEPT STAFF RATE BASE ADJUSTMENT 4, TO**  
23 **REDUCE WORKING CAPITAL BY \$90,286, THE BALANCE OF DEFERRED**  
24 **MAINTENANCE?**



1 A. No. The Company does not accept Staff Rate Base Adjustment 4 because we cannot  
2 accept the basis for the adjustment as set forth by the Staff witness as follows:

3  
4 The USOA only permits painting costs to be capitalized if it is  
5 "Painting, first cost." The second and subsequent painting,  
6 whether "costly" or not should be expensed, not deferred.  
7

8 Staff cites the USOA, account 304 – Structures and Improvements, as the basis for their  
9 adjustment. The Company does not dispute that the USOA prohibits the capitalization  
10 and depreciation of such subsequent tank painting costs. However, we have not  
11 "capitalized" tank painting to account 304, as the Staff testimony suggests. Rather, the  
12 Company has appropriately recorded the cost of tank painting to account 186 –  
13 Miscellaneous Deferred Debits, which according to the USOA, allows for the inclusion  
14 of unusual or extraordinary expenses. I am aware of no provision of account 186 that  
15 prohibits the recording of tank painting, whether first painting or subsequent.  
16

17 **Q. IS IT APPROPRIATE FOR THE COMPANY TO RECEIVE RATE BASE**  
18 **TREATMENT OF THIS DEFERRED DEBIT?**

19 A. Yes. The general theory held by commissions is that if the deferred cost benefits the  
20 customer and not the stockholder, then that cost should be funded by the customer and  
21 included in rate base. Arizona-American's shareholder is funding the entire amount of  
22 numerous other deferrals. We only ask for fair regulatory treatment in this case.  
23

24 **Q. IS DEFERRED MAINTENANCE CURRENTLY IN RATE BASE?**

---

<sup>1</sup> Dorf direct, p. 6 at 4 – 7.

1 A. My research indicates that it is. In Paradise Valley's last rate case the Company included  
2 \$272,439 of deferred programmed maintenance in its application and the Commission  
3 ultimately included \$254,701 of deferred debits in rate base. Exhibit JMR-RB3 is a  
4 workpaper and rate base detail from that case. If the Commission did not include this  
5 deferred debit in rate base, then I stand to be corrected.

6  
7 *Staff Rate Base Adjustment 5: Working Cash*

8 **Q. DOES THE COMPANY ACCEPT STAFF RATE BASE ADJUSTMENT 5 TO**  
9 **ELIMINATE THE COMPANY'S PROPOSED \$168,133 WORKING CASH**  
10 **ALLOWANCE?**

11 A. No. The Company does not accept this adjustment.

12  
13 **Q. WHY DID STAFF ELIMINATE THE COMPANY'S PROPOSED WORKING**  
14 **CASH REQUIREMENT?**

15 A. As explained by Staff witness Dorf on page 6, lines 11 – 21 of his direct testimony, Staff  
16 has typically found that most "sophisticated" utilities will have a *negative* working cash  
17 requirement. The witness goes on to state that the Company erroneously calculated  
18 property taxes to have a *positive* effect on its working cash requirement. For these  
19 reasons Staff eliminates the Company's proposed working cash requirement.

20  
21 **Q. HOW DOES THE COMPANY RESPOND?**

22 A. We do not agree that most sophisticated utilities necessarily have a negative rather than a  
23 positive working cash requirement, assuming a proper lead/lag study. As regards the  
4 Staff witness' testimony regarding the effect of property taxes; I must assume this is a

1 misstatement, as property taxes indeed have a *negative* effect on the working cash  
2 requirement in the Company's lead/lag study.  
3

4 **Q. DOES THE COMPANY'S ORIGINAL LEAD/LAG STUDY CONTAIN ERRORS?**

5 A. Yes. The Company's original lead/lag study contains errors in that certain expenses do  
6 not match the adjusted amounts shown on Schedule C-1 of the Company's application,  
7 and other expenses were overlooked.  
8

9 **Q. DID THE COMPANY PREPARE A CORRECTED LEAD/LAG STUDY?**

10 A. Yes, that study is attached hereto as Exhibit JMR-RB4. In preparing the corrected  
11 lead/lag study, the Company adjusted expenses to reflect adjusted test year expenses,  
12 added expenses not included in the original study, and accepted certain adjustments to the  
13 original study proposed by RUCO. The Company's revised working cash requirement is  
14 \$115,182. Company Rate Base Adjustment AAW-5, shown on Schedule JMR-RB3,  
15 page 1, column H, adjusts working cash to reflect the Company's updated lead/lag study.  
16 I discuss the Company's corrected lead/lag study in more detail when I respond to the  
17 testimony of RUCO witness Coley.  
18

19 **Q. DOES THIS CONCLUDE YOUR RESPONSE TO THE DIRECT TESTIMONY**  
20 **OF STAFF WITNESS DORF?**

21 A. Yes, it does.  
22

**B. Response to the Direct Testimony of RUCO Witness Coley**

*RUCO Rate Base Adjustment 1: Plant Held for Future Use*

**Q. DOES THE COMPANY ACCEPT RUCO RATE BASE ADJUSTMENT 1 TO EXCLUDE FROM RATE BASE PLANT HELD FOR FUTURE USE?**

**A.** No. The Company does not accept this adjustment for the same reasons we do not accept Staff Rate Base Adjustment 1. RUCO's adjustment lacks recognition of the significant benefit of maintaining Paradise Valley's plant held for future use for the very customers RUCO is charged with protecting.

*RUCO Rate Base Adjustment. 2: Gain on Sale of Land*

**Q. DOES THE COMPANY ACCEPT RUCO RATE BASE ADJUSTMENT 2, TO REDUCE RATE BASE BY 50 PERCENT OF THE COMPANY'S PRE-TAX GAIN ON THE SALE OF LAND?**

**A.** No. RUCO Rate Base Adjustment 2 is accompanied by an income statement adjustment proposed by RUCO witness Moore (RUCO Income Statement Adjustment No. 8) to reduce depreciation expense by one-fifth of one-half of the pre-tax gain on the sale of land. According to RUCO witness Coley, the adjustment is necessary to correct the Company's proposed method of sharing the gain which "would result in double taxation" (Coley direct, p. 7 at 18 – 22), while witness More explains that the adjustment is necessary to compensate customers for "the time value of their portion of the gain" (Moore direct, p. 20 at 11 – 18.) I address both of RUCO's adjustments here.

**Q. WHY DOES THE COMPANY NOT ACCEPT RUCO RATE BASE ADJUSTMENT 2 AND RUCO INCOME STATEMENT ADJUSTMENT 8?**

1 A. The Company will not accept these adjustments for multiple reasons, the most apparent  
2 of which is that we already propose to share this gain with our customers. As explained  
3 by Company witness David Stephenson on pages 35 – 37 of his direct testimony,  
4 Arizona-American Water already proposes to give 50 percent of the *after-tax* gain on the  
5 sale of this property to customers as a monthly fixed cost sur-credit based on meter size  
6 over five years. RUCO's proposal to reduce rate base by half of the *pre-tax* gain and  
7 reduce depreciation expense by one-fifth of that amount ignores the fact that the  
8 Company has already incurred the taxes associated with the portion of the gain we wish  
9 to give to customers and complicates Paradise Valley's cost of service. For additional  
10 reasons, we believe our existing proposal to give 50 percent of the *after-tax* gain to  
11 customers in the form of a sur-credit is more than fair.

12  
13 Q. WHAT ARE THOSE REASONS?

14 A. As already explained by Mr. Stephenson (Stephenson direct, p. 37 at 3 – 6), the subject  
15 land was in rate base over an extended period of time at a very small value -  
16 approximately \$14,000. Earnings on the land were probably close to only \$2,000  
17 annually. The Company's proposal to give approximately \$48,000 annually to customers  
18 over the next five years is more than fair when considering that the Company's investors,  
19 and not its customers, provided the original capital related to this investment and  
20 therefore bore all of the related risk. The Commission should accept the Company's  
21 current proposal to share 50 percent of the after tax gain on the sale of this land with its  
22 customers and resist any attempt to extract additional amounts related to taxes and  
23 interest.

24

1 **Q. WHAT DOES RUCO RECOMMEND WITH RESPECT TO THE COMPANY'S**  
2 **EXISTING PROPOSAL TO GIVE 50 PERCENT OF THE GAIN TO**  
3 **CUSTOMERS?**

4 A. RUCO makes no recommendation. Therefore, it is unclear whether RUCO intends their  
5 adjustment to be in lieu of, or in addition to, the Company's existing proposal. The latter  
6 of which would effectively require the Company to give 100 percent of the gain to  
7 customers.

8  
9 **Q. WAS THE COMPANY'S PORTION OF THE GAIN RETAINED AS EQUITY?**

10 A. Yes. This gain was retained as equity within the Company. In fact, Arizona-American  
11 Water has not paid a dividend since 2003 and will not pay one in 2006. Company  
12 witness Mr. Broderick provides a comprehensive discussion of Arizona-American  
13 Water's current financial condition and the goal, which Staff shares, of improving our  
14 equity ratio.

15  
16 *RUCO Rate Base Adjustment 3: Capitalized Expenses*

17 **Q. DOES THE COMPANY ACCEPT RUCO RATE BASE ADJUSTMENT 3 TO**  
18 **INCREASE RATE BASE BY \$10,495 TO REFLECT THE CAPITALIZATION OF**  
19 **CERTAIN EXPENSES?**

20 A. Yes. This adjustment is accompanied by RUCO Income Statement Adjustment 13  
21 sponsored by RUCO witness Moore, which the Company also accepts. The Company's  
22 acceptance of this adjustment is reflected in Company Rate Base Adjustment AAW-6,  
23 shown on Schedule JMR-RB3, page 2, column K.

24

*RUCO Rate Base Adjustment. 4: Working Capital*

**Q. DOES THE COMPANY ACCEPT RUCO RATE BASE ADJUSTMENT 4 TO DECREASE WORKING CAPITAL BY \$231,827?**

**A.** The Company accepts portions of this adjustment and some, but not all, of the amounts. We cannot accept the total amount of this adjustment, in part, because the witness' testimony and schedules do not reconcile with his electronic workpapers. The Company's position on the individual components of RUCO's adjustment is summarized below:

- a. Reconcile lead/lag study expenses with adjusted expenses shown on Schedule C-1 of the Company's application: The Company agrees with this adjustment.
- b. Increase working capital by \$7,774 to reflect the authorized amortization of the Mummy Mountain acquisition adjustment: The Company agrees with this adjustment.
- c. Include interest expense in the lead/lag study: The Company will accept this adjustment given a corresponding adjustment to include all capital costs, including the cost of equity.
- d. Restate Paradise Valley's revenue lag to 38.3 days: The Company accepts this number, although we do not necessarily agree with RUCO's calculation.
- e. Restate property tax lag days to reflect the date before the taxes become delinquent as opposed to when the payment was actually made: The Company does not accept this adjustment.

**Q. DOES THE COMPANY ACCEPT RUCO'S ADJUSTMENT TO INCLUDE INTEREST EXPENSE IN ITS LEAD/LAG STUDY?**

1 A. Yes. However, if the cost associated with the debt component of the return is included,  
2 then a corresponding adjustment to include the cost associated with the equity component  
3 should be made as well. The equity portion of the cost of capital should be recognized in  
4 the lead/lag study with a full revenue lag and a zero payment lead.

5  
6 **Q. WHY MUST YOU ALSO CONSIDER THE COST ASSOCIATED WITH EQUITY**  
7 **IF YOU INCLUDE THE COST ASSOCIATED WITH DEBT IN A LEAD/LAG**  
8 **STUDY?**

9 A. To be consistent, if you include one element of the return you should include them all.  
10 The cost associated with equity is as much a cost of providing service as the cost  
11 associated with debt, and the Company should be compensated for its implicit additional  
12 investment related to the 38.3 days it must wait to be compensated for this cost.

13  
14 **Q. DOES THE COMPANY AGREE WITH RUCO'S ADJUSTMENT TO RESTATE**  
15 **PROPERTY TAX LAG DAYS TO REFLECT THE DATE BEFORE THE TAXES**  
16 **BECOME DELINQUENT INSTEAD OF WHEN THE PAYMENT WAS**  
17 **ACTUALLY MADE?**

18 A. No. The lead/lag methodology requires an examination of the net lag days between the  
19 time lag between services rendered and the receipt of revenues for such services, and the  
20 time lag between the recording of costs and the *payment* of such costs.<sup>2</sup> The Company's  
21 lead/lag study does this. In the context of a lead/lag study, the date on which Arizona-  
22 American Water pays property taxes is no more inappropriate than the dates on which it

---

<sup>2</sup> See Hahne, Robert L., & Gregory E. Aliff. *Accounting for Public Utilities*. 2002. p. 5-10.



1 pays its employees. The Company's calculation of 177.5 property tax lag days is  
2 reasonable and we ask that the Commission adopt it.

3  
4 **Q. PLEASE DISCUSS THE REMAINING CHANGES MADE TO THE COMPANY'S**  
5 **LEAD/LAG STUDY.**

6 **A.** In addition to the changes described thus far, the Company made additional changes to its  
7 lead/lag study to reflect operating expenses originally not included, and a more precise  
8 calculation of certain expense lag days. They are:

- 9  
10 a. The amount of Service Company/Management Fees was inadvertently left out of the  
11 Company's original study, although negative 15.0 lag days was reported. The  
12 Company included management fees in its corrected lead/lag study and re-calculated  
13 lag days to be negative 3.88.  
14 b. The Company re-calculated lag days for Group Insurance to be negative 4.64 rather  
15 than negative 6.5 originally reported.  
16 c. The Company calculated Pension lag days to be 45 rather than zero originally  
17 reported.  
18 d. The Company included Insurance other than Group on a separate line and calculated  
19 lag days to be 45.  
20 e. The Company re-calculated the number of lag days for Rent to be negative 10.68  
21 rather than the original negative 8.5.  
22 d. Depreciation expense was included with zero lag days.  
23

1 **Q. WHY DID THE COMPANY INCLUDE DEPRECIATION EXPENSE WITH**  
2 **ZERO LAG DAYS?**

3 A. The company included depreciation expense in its corrected lead/lag study to properly  
4 recognize that as it stands currently, the balance of accumulated depreciation will be  
5 under-funded by 38.3 days worth of depreciation expense. Absent an adjustment to  
6 reduce accumulated depreciation to account for this lag, depreciation expense must be  
7 included in the lead/lag study with a zero payment lag.  
8

9 **Q. WHAT AMOUNT OF WORKING CASH IS THE COMPANY PROPOSING?**

10 A. The Company proposes working cash in the amount of \$115,182 based on its corrected  
11 lead/lag study. The Company's acceptance of RUCO's adjustment to reflect the correct  
12 amortization of the Mummy Mountain acquisition adjustment is reflected in Company  
13 Rate Base Adjustment AAW-7, shown on Schedule JMR-RB3, page 2, column L. As  
14 mentioned previously, the Company's revised working cash requirement is reflected in  
15 Company Rate Base Adjustment AAW-5 shown on Schedule JMR-RB3, page 1, column  
16 H.  
17

18 **Q. DOES THIS CONCLUDE YOUR RESPONSE TO THE DIRECT TESTIMONY**  
19 **OF RUCO WITNESS COLEY?**

20 A. Yes, it does.  
21

**C. Other Rate Base Issues**

*Additional Public Safety Plant added to Date*

**Q. HAS ARIZONA-AMERICAN WATER MADE ADDITIONAL PUBLIC SAFETY/FIRE FLOW PLANT IMPROVEMENTS OTHER THAN THE JACKRABBIT/INVERGORDON AND MCDONALD MAIN PROJECTS SINCE THE END OF THE TEST YEAR?**

**A.** Yes. In addition to the Jackrabbit/Invergordon and McDonald main projects placed into service in October 2005, Arizona-American Water has completed \$420,755 in public safety/fire flow improvements along Nauni Valley Drive in Paradise Valley. Company witness Joseph Gross discusses this project further in his rebuttal testimony.

**Q. IS THE COMPANY PROPOSING TO INCLUDE THE NAUNI VALLEY DRIVE IMPROVEMENTS IN RATE BASE AT THIS TIME?**

**A.** Yes. In light of Staff Rate Base Adjustment 2, and more precisely Staff witness Dorf's recommendation that the public safety/fire flow improvement costs incurred to date be included in rate base, the Company proposes to include this additional project in rate base at this time. This project is reflected in Company Rate Base Adjustment AAW-3 shown on Schedule JMR-RB3, page 1, column E, and all supporting documentation related to the Nauni Valley Drive project is attached hereto as Exhibit JMR-RB5.

*Public Safety/Fire Flow Accounting Order Deferral*

**Q. IS THE COMPANY PROPOSING AN ADDITIONAL RATE BASE ADJUSTMENT?**

1 A. Yes. In Decision No. 68303, dated November 14, 2005 (attached hereto as Exhibit JMR-  
2 RB6) the Commission authorized the deferral of depreciation expense and the accrual of  
3 post-in-service AFUDC related to public safety/fire flow improvement projects placed  
4 into service in Paradise Valley. According to Finding of Fact 9, "a determination  
5 regarding the recovery of the deferral will be made in the Company's instant rate case or  
6 the Company's future rate cases for the Paradise Valley water district."

7  
8 As mentioned previously, the Company is very appreciative of Staff's recognition of the  
9 Jackrabbit/Invergordon and McDonald main projects as post-test year plant additions.  
10 However, while Staff's recommendation will allow the Company to recover its return and  
11 depreciation on these projects sooner rather than later, the effect will be a loss of return  
12 and depreciation incurred prior to the setting of new rates. The Company will, in effect,  
13 be made less than whole – a result contrary to what the Company believes was the spirit  
14 and purpose of the November 2005 accounting order. Therefore, we respectfully request  
15 that the Commission include in rate base deferred depreciation expense and accrued post-  
16 in-service AFUDC related to the public safety/fire flow improvement projects included as  
17 post-test year plant additions in this case.

18  
19 **Q. WHAT AMOUNT OF DEFERRED DEPRECIATION EXPENSE AND ACCRUED**  
20 **POST-IN-SERVICE AFUDC IS THE COMPANY PROPOSING TO INCLUDE.**

21 A. The total amount related to the Jackrabbit/Invergordon, McDonald, and Nauni Valley  
22 Drive main projects will be \$168,590 at the time new rates are expected to go into effect  
23 in this case. This amount includes deferred depreciation and accrued post-in-service  
24 AFUDC from October 2005 to July 2006 for the Jackrabbit/Invergordon and McDonald

1 main projects, and from February 2006 to July 2006 for the Nauni Valley drive  
2 improvements. These additions are reflected in Company Rate Base Adjustment AAW-8  
3 shown on Schedule JMR-RB3, page 2, column M.

4  
5 **Q. IS THE COMPANY PROPOSING A COUNTERVAILING ADJUSTMENT TO**  
6 **ACCUMULATED DEPRECIATION?**

7 A. Yes. The total amount of deferred depreciation expense the Company proposes to  
8 recover is \$56,481. The Company will accept an adjustment to increase accumulated  
9 depreciation by this amount. This adjustment is reflected in Company Rate Base  
10 Adjustment AAW-9 shown on Schedule JMR-RB3, page 2, column N.

11  
12 **IV. INCOME STATEMENT**

13 **A. Response to the Direct Testimony of Staff Witness Igwe**

14 *Staff Income Statement Adjustment 1: Purchased Water Expense*

15 **Q. DOES THE COMPANY ACCEPT STAFF INCOME STATEMENT**  
16 **ADJUSTMENT 1 TO REDUCE OPERATIONS EXPENSE BY \$38,660 RELATED**  
17 **TO PURCHASED WATER?**

18 A. Yes. The Company agrees with Staff's testimony regarding purchased water expense and  
19 will accept this adjustment. The Company's acceptance of this adjustment is reflected in  
20 Company Income Statement Adjustment AAW-1 shown on Schedule JMR-RB5, page 1,  
21 column B.

22

*Staff Income Statement Adjustment 2: Purchased Power Expense*

**Q. DOES THE COMPANY ACCEPT STAFF INCOME STATEMENT  
ADJUSTMENT 2, TO REDUCE PURCHASED POWER EXPENSE BY \$15,381  
RELATED TO WHAT THE STAFF WITNESS DESCRIBES AS AN ESTIMATE  
OF FUTURE COSTS?**

**A.** No. The Company does not accept this adjustment. As explained by Company witness David Weber in his rebuttal testimony, the Company's adjusted test year purchased power expense is consistent with twelve monthly invoices for purchased power. These costs were actually incurred, not estimated.

*Staff Income Statement Adjustment 3: Contractual Services*

**Q. DOES THE COMPANY ACCEPT STAFF INCOME STATEMENT  
ADJUSTMENT 3 TO REDUCE OPERATIONS EXPENSE BY \$32,389 RELATED  
TO A CONTRACT EMPLOYEE WHO BECAME A COMPANY EMPLOYEE?**

**A.** Yes. As Company witness Mr. Weber discusses in his rebuttal testimony, the Company accepts this adjustment. RUCO witness Moore proposes this same adjustment as a component of RUCO Income Statement Adjustment 8, and the Company will accept it as well. The Company's acceptance of this adjustment is reflected in Company Income Statement Adjustment AAW-2 shown on Schedule JMR-RB5, page 1, column D.

*Staff Income Statement Adjustment 4: Materials & Supplies Inventory*

**Q. DOES THE COMPANY ACCEPT STAFF INCOME STATEMENT  
ADJUSTMENT 4 TO REDUCE OPERATIONS EXPENSE BY \$11,184 RELATED  
TO THE WRITE-OFF OF MATERIALS & SUPPLIES?**

1 A. Yes. The Company agrees with Staff's testimony regarding the write-off of materials &  
2 supplies and will accept this adjustment. RUCO makes this same adjustment (RUCO  
3 Income Statement Adjustment 6) and the Company will accept it as well. The  
4 Company's acceptance of this adjustment is reflected in Company Income Statement  
5 Adjustment AAW-3 shown on Schedule JMR-RB5, page 1, column E.

6  
7 *Staff Income Statement Adjustment 5: Rate Case Expense*

8 **Q. DOES THE COMPANY ACCEPT STAFF INCOME STATEMENT**  
9 **ADJUSTMENT 5 TO REDUCE RATE CASE EXPENSE BY \$24,714 RELATED**  
10 **TO ITS ESTIMATE OF TOTAL RATE CASE EXPENSE?**

11 A. No. Company witness Thomas Broderick addresses rate case expense in his rebuttal  
12 testimony. Mr. Broderick estimates rate case expense to be \$301,832, or \$100,611  
13 annually. This represents a \$6,331 increase over the Company's original estimate, and is  
14 reflected in Company Income Statement Adjustment AAW-4 shown on Schedule JMR-  
15 RB5, page 1, column F.

16  
17 *Staff Income Statement Adjustment 6: Allocated Corporate Miscellaneous Expenses*

18 **Q. DOES THE COMPANY ACCEPT STAFF INCOME STATEMENT**  
19 **ADJUSTMENT 6 TO REDUCE OPERATING EXPENSES BY \$145,648, THE**  
20 **ENTIRE AMOUNT OF ALLOCATED CORPORATE MISCELLANEOUS**  
21 **EXPENSES?**

22 A. No. The Company cannot accept this adjustment because the account in question  
23 contains utility operating expenses that Arizona-American Water cannot afford to incur  
24 without recovery.

1  
2 **Q. WHY DID STAFF REMOVE ALL CHARGES IN THIS ACCOUNT?**

3 A. According to the Staff witness, in reviewing the Company's responses to RUCO data  
4 requests, Staff noted that the Company "made no attempt to segregate miscellaneous  
5 corporate expenses from miscellaneous direct expenses that should have been allocated to  
6 specific operating districts."<sup>3</sup> Staff states:

7  
8 ...this account is not just corporate miscellaneous expenses but  
9 also includes a myriad of other miscellaneous expenses that should  
10 have been charged directly to its various operating districts.<sup>4</sup>  
11

12 Staff witness Igwe testifies that the Company did not provide enough information to  
13 enable Staff to make any adjustments or otherwise correct the account. For this reason,  
14 Staff removed all charges.  
15

16 **Q. HOW DOES THE COMPANY RESPOND TO STAFF'S CLAIM THAT THE**  
17 **RUCO DATA RESPONSES DID NOT CONTAIN ENOUGH INFORMATION TO**  
18 **ENABLE IT TO MAKE ANY ADJUSTMENTS OR OTHERWISE CORRECT**  
19 **THE ACCOUNT?**

20 A. The Company doesn't doubt Staff's claim, and adds that they probably wouldn't have  
21 had enough time to make adjustments given the time frame in which this issue arose. For  
22 this reason, the Company understands the *reason* for Staff's adjustment. However, that is  
23 not to say that the Commission should eliminate an entire account composed of  
24 legitimate utility operating expenses. We hope that after an explanation of the

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<sup>3</sup> Igwe direct, p. 12 at 14 – 16.

<sup>4</sup> Igwe direct, p. 13 at 13 – 18.



1 Company's allocation methodology and a clarification of which of these charges were,  
2 and were not, actually charged to corporate accounts, Staff will change its position on this  
3 issue.

4  
5 **Q. DID RUCO ADJUST THIS ACCOUNT?**

6 A. Yes. RUCO reduced allocated corporate miscellaneous expenses by \$19,437 (RUCO  
7 Income Statement Adjustment 12) and the Company accepts \$3,446 of RUCO's  
8 reduction. The basis for RUCO's adjustment is validity, whereas the basis for Staff's  
9 adjustment is allocation. I address RUCO's adjustment further when I respond to the  
10 direct testimony of RUCO witness Moore.

11  
12 **Q. HOW ARE COSTS ALLOCATED AT ARIZONA-AMERICAN WATER?**

13 A. Consistent with NARUC Guidelines, all costs incurred by Arizona-American Water are  
14 allocated to the maximum extent practicable on a direct basis. This means that all costs  
15 such as labor, purchased water, purchased power, chemicals, and miscellaneous expenses  
16 incurred by each of the Company's twelve regulated operating districts are charged  
17 directly to those districts to the maximum extent reasonably possible. Expenses related to  
18 public relations, employment advertising, environmental compliance, and employee  
19 certifications and awards, are incurred at the corporate level. Costs incurred at the  
20 divisional corporate level are assumed to benefit all operating districts in that division  
21 and costs incurred at the statewide corporate level are assumed to benefit all Arizona-  
22 American Water operating districts. For ratemaking purposes, these costs must be  
23 allocated to each district using the Company's four-factor allocation methodology.

1 Q. AT WHAT LEVEL WERE THE COSTS INCLUDED IN STAFF'S  
2 ADJUSTMENT INCURRED?

3 A. The subject costs were incurred at the Central Division Corporate district and Arizona  
4 Corporate levels. In the test year, the Central Division Corporate district office located in  
5 Sun City incurred \$538,251 in miscellaneous expenses and the Arizona-American Water  
6 corporate office located in Phoenix incurred \$1,271,773 in miscellaneous expenses. Of  
7 this amount, the Company removed \$16,328 related to employees who transferred to the  
8 Service Company during the test year, to arrive at an adjusted total figure of \$1,793,696  
9 (\$1,810,024 - \$16,328). This amount was then allocated to Paradise Valley using its  
10 four-factor allocation of 8.12 percent to arrive at adjusted test year allocated corporate  
11 miscellaneous expenses in the amount of \$145,648, which Staff then removed.  
12

13 Q. DID STAFF IDENTIFY THE COSTS IT BELIEVES SHOULD HAVE BEEN  
14 CHARGED DIRECTLY TO THE VARIOUS OPERATING DISTRICTS  
15 RATHER THAN THE CENTRAL AND ARIZONA CORPORATE DIVISIONS?

16 A. According to their response to Company data request AAW 2.1, Staff reviewed the items  
17 provided to RUCO and identified which of those subject expenses should have been  
18 directly allocated to the operating districts. In certain cases Staff provided other reasons  
19 it believes the expense should be disallowed. I have attached Staff's response to AAW  
20 2.1 hereto as Exhibit JMR-RB7.  
21

22 Q. REALIZING THAT STAFF DID NOT REVIEW ALL EXPENSES INCLUDED IN  
23 THE ACCOUNT, CAN YOU ADDRESS THE ONES THEY DID REVIEW AND

**RESPOND TO THEIR CLAIM THAT THEY WERE INCORRECTLY  
CHARGED TO A CORPORATE BUSINESS UNIT?**

A. Yes. Virtually all of the miscellaneous plant items listed by Staff in Exhibit JMR-RB7 were, in fact, correctly charged to the appropriate operating district. Such charges include the following items listed by Staff:

Table 3

| Description of Charge   | Operating District<br>item was Charged to |
|---|---|
| Interstate Battery (Northwest Reclam.) - \$84.01                  | Northwest Valley WTF                      |
| Interstate Battery (Northwest Reclam.) - \$106.26                 | Northwest Valley WTF                      |
| IP Steel (shade for lift station) - \$396.00                      | Sun City Wastewater                       |
| Steven Diaz Lawn Maint. - \$150.00                                | Agua Fria Water                           |
| Steven Diaz Lawn Maint. - \$300.00                                | Agua Fria Water                           |
| Steven Diaz Lawn Maint. - \$850.00                                | Agua Fria Water                           |
| Steven Diaz Lawn Maint. - \$300.00                                | Agua Fria Water                           |
| Steven Diaz Lawn Maint. - \$200.00                                | O&M Contract                              |
| Steven Diaz Lawn Maint. - \$250.00                                | Agua Fria Water                           |
| Steven Diaz Lawn Maint. - \$300.00                                | Agua Fria Water                           |
| Steven Diaz Lawn Maint. - \$250.00                                | Agua Fria Water                           |
| Steven Diaz Lawn Maint. (Sun City Blvd. main break) -<br>\$701.50 | Sun City Water                            |
| Ace Hardware (plant supplies) - \$30.06                           | Anthem Wastewater                         |
| Ace Hardware (plant supplies) - \$29.30                           | Anthem Wastewater                         |
| Ace Hardware (saw blades) - \$29.32                               | Anthem Wastewater                         |
| Ace Hardware (misc. repair parts) - \$12.29                       | Anthem Wastewater                         |
| Ace Hardware (misc. repair parts) - \$8.48                        | Anthem Wastewater                         |
| Southwest Rubber (hoses for sludge truck) - \$541.40              | Northwest Valley WTF                      |
| Fry's Food & Drug (Sun City fire flow mtg.) - \$5.67              | Sun City Water                            |
| Chick-fil-A (Sun City fire flow mtg.) - \$4.00                    | Sun City Water                            |
| Safeway Stores (Sun City fire flow mtg.) - \$12.22                | Sun City Water                            |

1 **Q. IF THE CHARGES LISTED IN THE ABOVE TABLE WERE ACTUALLY**  
2 **CHARGED TO THE APPROPRIATE OPERATING DISTRICTS, HOW DO YOU**  
3 **EXPLAIN STAFF'S POSITION?**

4 **A.** The plant items and expenses listed in the above table were purchased using Company  
5 issued employee purchasing cards ("P-cards"). To reduce the time and labor necessary to  
6 respond to RUCO's data request (which was very lengthy) the Company provided the  
7 weekly P-card statements that contained the particular charge RUCO was questioning.  
8 However, those P-card statements show all purchases that were made in a particular  
9 week, not just those charged to a corporate business unit. A cursory review of the  
10 invoices attached to the P-card statements provided in response to the RUCO data request  
11 would very likely lead one to believe that expenses benefiting individual operating  
12 districts were charged to the corporate office. However, a more detailed examination of  
13 the P-card statement reveals the exact Arizona-American Water business unit and  
14 account to which each item was charged. Given the short time Staff had to review this  
15 information before filing testimony and the personnel changes mentioned by Staff  
16 witness Carlson on page 1 of his direct testimony, Staff's conclusions are understandable.

17  
18 **Q. ACCORDING TO EXHIBIT JMR-RB7, THE COMPANY CHARGED TO THE**  
19 **CENTRAL DIVISION CORPORATE DISTRICT \$90 IN GIFT CERTIFICATES**  
20 **FOR ANTHEM AND SUN CITY "EMPLOYEES OF THE QUARTER". PLEASE**  
21 **EXPLAIN WHY THIS IS APPROPRIATE.**

22 **A.** This is appropriate because the Anthem and Sun City "employees of the quarter" were  
23 quite possibly, and very likely, also employees of Paradise Valley and Agua Fria. The  
24 only way to charge these expenses directly to the appropriate operating districts would be

1 via a journal entry based on the percent of time the employee charged to each district  
2 (including the corporate districts) during that quarter. These types of allocations would  
3 most certainly over-complicate the accounting process and burden the Company's  
4 accounting department to the point where some of the cost benefits of being a multi-  
5 district water utility would be diminished.

6  
7 Despite that fact that the Company believes these expenses were properly allocated, we  
8 are no longer seeking to recover them in rates. RUCO has eliminated these charges in  
9 RUCO Income Statement Adjustment 12, and the Company accepts this component of  
10 RUCO's adjustment.

11  
12 **Q. EXHIBIT JMR-RB7 ALSO CONTAINS CHARGES RELATED TO**  
13 **CHARITABLE CONTRIBUTIONS IN A NUMBER OF THE COMPANY'S**  
14 **OPERATING DISTRICTS AS WELL AS VARIOUS DUES TO CHAMBERS OF**  
15 **COMMERCE AND OTHER ORGANIZATIONS. ARE THESE CHARGES**  
16 **APPROPRIATE?**

17 **A.** These specific charges are appropriately allocated but not appropriate for recovery. As I  
18 mentioned previously, the Company charges all public relations expenses to the corporate  
19 business unit. This is appropriate because, arguably, regardless of where a public  
20 relations dollar is spent, it benefits the Company as a whole. However, this is not as  
21 much an issue of proper allocation, as it is appropriateness. The Company should not  
22 have sought recovery of these charges in its original application. RUCO has removed  
23 these charges and the Company will accept this portion of RUCO's adjustment.

1 **Q. DOES STAFF TAKE ISSUE WITH CHARGES FOR ENVIRONMENTAL FEES**  
2 **AND COMPLIANCE?**

3 A. Yes. As noted on Exhibit JMR-RB7, Staff takes issue with charges for federally  
4 mandated Small System Consumer Confidence Reports and a \$700 Maricopa County  
5 operating permit that should have been charged to the Sabrosa Water system. RUCO has  
6 removed both of these charges and the Company will accept this portion of RUCO's  
7 adjustment.

8  
9 **Q. DOES THE COMPANY CHARGE EXPENSES RELATED TO EMPLOYEE**  
10 **TRAINING AND CERTIFICATION TO THE CORPORATE BUSINESS UNIT?**

11 A. Yes. Expenses related to employee training and certifications are charged to the  
12 corporate business unit for the same reasons discussed above with regard to awards for  
13 employees of the quarter. As a result, employee training and certifications related to  
14 water and wastewater would be allocated to all operating districts for regulatory  
15 purposes.

16  
17 **Q. WHAT TYPES OF CHARGES DID STAFF NOTE AS INAPPROPRIATE FOR**  
18 **REASONS OTHER THAN PROPER ALLOCATION?**

19 A. According to Exhibit JMR-RB7, Staff believes the following charges are inappropriate  
20 for recovery; legal fees related to the Citizens acquisition, an employment services fee  
21 related to the recruitment of the Company's engineering manager, and "extensive board  
22 member fees and travel expenses." All of these charges were eliminated by RUCO in  
23 RUCO Income Statement Adjustment 12. The Company accepts RUCO's adjustment to  
24 remove the legal fees related to the Citizens acquisition. However, the Company believes

1 the remaining charges should be recovered. These will be addressed later in my  
2 testimony and in the testimony of other Company witnesses.

3  
4 **Q. ARE THERE ANY ADDITIONAL CHARGES SHOWN ON EXHIBIT JMR-RB7**  
5 **WHICH YOU HAVE NOT YET ADDRESSED?**

6 A. Yes. The remaining charges listed on Exhibit JMR-RB7 include; a \$48.00 subscription  
7 to the West Valley View newspaper in Agua Fria, \$31.94 for propane to fuel a forklift in  
8 Anthem, and a \$176.22 charge for the rental of fencing in Anthem. RUCO has  
9 eliminated the \$176.22 charge for fence rental and the Company will accept RUCO's  
10 adjustment. Of the remaining two items that were improperly allocated to other operating  
11 districts, \$6.49 was allocated to Paradise Valley ( $\$48.00 + \$31.94 \times 8.12\%$ ) and is  
12 therefore included in adjusted test year operating expenses. The Company will accept an  
13 adjustment to reduce operating expenses by \$6.49 if Staff proposes such an adjustment.

14  
15 **Q. BASED ON THE PRECEDING DISCUSSION AND RESPONSE TO THE STAFF**  
16 **TESTIMONY, DOES THE COMPANY BELIEVE STAFF'S ADJUSTMENT IS**  
17 **REASONABLE AND SHOULD BE ADOPTED?**

18 A. No. The Company believes its method of allocating costs, as demonstrated in the  
19 preceding testimony, is reasonable and Staff's adjustment is not necessary. Arizona-  
20 American Water is a large multi-district water utility and is unlike the majority of water  
21 utilities regulated by the Commission. Many functions of the Company are centralized  
22 and resources are shared. Creating an overly detailed or complex cost allocation system  
23 could increase business costs and diminish the benefits that come with being a multi-

1 district water utility. As the Company has shown, costs are allocated to the maximum  
2 extent reasonably practicable on a direct basis, consistent with NARUC guidelines.

3  
4 *Staff Income Statement Adjustment 7: Depreciation Expense*

5 **Q. DOES THE COMPANY ACCEPT STAFF'S CALCULATION OF**  
6 **DEPRECIATION EXPENSE?**

7 A. Yes. The Company accepts Staff's calculation of depreciation expense, including the  
8 elimination of \$32,634 related the amortization of comprehensive planning studies.

9  
10 **Q. STAFF INCLUDED IN DEPRECIATION EXPENSE \$6,570 RELATED TO THE**  
11 **AMORTIZATION OF THE MUMMY MOUNTAIN ACQUISITION**  
12 **ADJUSTMENT. DOES THE COMPANY STILL PROPOSE THIS AMOUNT?**

13 A. No. Although the Company should recover the Mummy Mountain acquisition  
14 adjustment, the amount should be \$5,256 rather than \$6,570. This change is a result of  
15 the Company's acceptance of the portion of RUCO Income Statement Adjustment 8  
16 related to the correct amortization of the Mummy Mountain acquisition adjustment. I  
17 discuss this issue further when I respond to the direct testimony of RUCO witness Mr.  
18 Moore. The Company's revised depreciation expense calculation is reflected in  
19 Company Income Statement Adjustment AAW-14 shown on Schedule JMR-RB5, page  
20 3, column V.

21  
22 *Staff Income Statement Adjustment 8: Property Taxes*

23 **Q. ARE THE COMPANY AND STAFF IN AGREEMENT ON THE ISSUE OF THE**  
24 **CALCULATION OF PROPERTY TAXES?**



1 A. Yes. The Company and Staff use the same formula to calculate property taxes and are  
2 therefore in agreement on this issue. The Company's revised property tax calculation is  
3 reflected in Company Income Statement Adjustment AAW-15 shown on Schedule JMR-  
4 RB5, page 3, column W.

5  
6 *Staff Income Statement Adjustment 9: Income Taxes*

7 **Q. ARE THE COMPANY AND STAFF IN AGREEMENT ON THE MANNER IN**  
8 **WHICH INCOME TAXES ARE CALCULATED?**

9 A. Yes. The Company and Staff are in agreement on this issue. The Company's revised  
10 income tax calculation is reflected in Company Income Statement Adjustment AAW-16  
11 shown on Schedule JMR-RB5, page 3, column X.

12  
13 **Q. DOES THIS CONCLUDE YOUR RESPONSE TO THE DIRECT TESTIMONY**  
14 **OF STAFF WITNESS IGWE?**

15 A. Yes, it does.  
16

17 **C. Response to the Direct Testimony of RUCO Witness Moore**

18 *RUCO Income Statement Adjustment 1: Reclassification of Office Lease*

19 **Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT**  
20 **ADJUSTMENT 1 TO DECREASE OPERATIONS EXPENSE BY \$14,593**  
21 **RELATED TO THE RECLASSIFICATION OF OFFICE LEASE EXPENSE?**

22 A. The Company agrees with RUCO's adjustment but not the amount. The portion of office  
23 lease expense that the RUCO witness testifies was erroneously recorded was actually  
24 recorded to the Central Division Corporate district and then allocated down to Paradise

1 Valley. Therefore, only a portion of the \$14,593 is included in the Company's adjusted  
2 test year expenses, and only that portion should be removed. Multiplying the \$14,593 by  
3 Paradise Valley's 4-factor allocation of 8.12 percent yields an actual adjustment of  
4 negative \$1,185. This adjustment is reflected in Company Income Statement Adjustment  
5 AAW-5 shown on Schedule JMR-RB5, page 1, column H and all supporting  
6 documentation is attached hereto as Exhibit JMR RB-8.

7  
8 *RUCO Income Statement Adjustment 2: Normalize Group Insurance*

9 **Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT**  
10 **ADJUSTMENT 2 TO REDUCE GROUP INSURANCE BY \$2,972.**

11 A. Yes. Company witness David Weber addresses RUCO Income Statement Adjustment 2  
12 in his rebuttal testimony. The Company's acceptance of this adjustment is reflected in  
13 Company Income Statement Adjustment AAW-6 shown on Schedule JMR-RB5, page 1,  
14 column I.

15  
16 *RUCO Income Statement Adjustment 3: OPEB Expense Normalization*

17 **Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT**  
18 **ADJUSTMENT 3 TO REDUCE OPEB EXPENSE BY \$2,093 TO REFLECT THE**  
19 **ACTUAL PERCENTAGE OF EACH EMPLOYEE'S TIME ALLOCATED TO**  
20 **PARADISE VALLEY DURING THE TEST YEAR?**

21 A. Yes. Company witness Mr. Weber addresses RUCO Income Statement Adjustment 3 in  
22 this rebuttal testimony. The Company's acceptance of this adjustment is reflected in  
23 Company Income Statement Adjustment AAW-7 shown on Schedule JMR-RB5, page 1,  
24 column J.

*RUCO Income Statement Adjustment 4: Rate Case Expense*

**Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT  
ADJUSTMENT 4 TO REDUCE OPERATIONS EXPENSE BY \$79,644 RELATED  
TO ITS ESTIMATE OF RATE CASE EXPENSE?**

**A.** No. Company witness Mr. Broderick addresses rate case expense in this rebuttal testimony. As previously mentioned, the Company's revised estimate of rate case expense is reflected in Company Income Statement Adjustment AAW-4 shown on Schedule JMR-RB5, page 1, column F.

*RUCO Income Statement Adjustment 5: Pension Expense*

**Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT  
ADJUSTMENT 5 TO REDUCE PENSION EXPENSE BY \$12,037?**

**A.** As explained by Mr. Weber in his rebuttal testimony, the Company accepts RUCO's adjustment with the exception of the pension cost associated with the increase in labor expense proposed by the Company. The Company's partial acceptance of this adjustment is reflected in Company Income Statement Adjustment AAW-8 shown on Schedule JMR-RB5, page 2, column L.

*RUCO Income Statement Adjustment 6: Write-off of Materials and Supplies*

**Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT  
ADJUSTMENT 6 TO REDUCE OPERATIONS EXPENSE BY \$11,184 RELATED  
TO THE WRITE-OFF OF MATERIALS AND SUPPLIES?**

1 A. Yes. The Company accepts both RUCO Income Statement Adjustment 6 and Staff  
2 Income Statement Adjustment 4 to reduce operations expense by \$11,184 related to the  
3 write-off of materials and supplies. The Company's acceptance of this adjustment is  
4 reflected in Company Income Statement Adjustment AAW-3 shown on Schedule JMR-  
5 RB5, page 1, column E.

6  
7 *RUCO Income Statement Adjustment 7: Normalized Labor*

8 **Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT**  
9 **ADJUSTMENT 7 TO REDUCE LABOR BY \$161,443?**

10 A. As explained by Mr. Weber in his rebuttal testimony, the Company accepts RUCO's  
11 proposed level of hours for all employees except for those associated with three job  
12 classifications: meter readers, field customer service representatives (CSRs), and plant  
13 operators. The Company's partial acceptance of this adjustment is reflected in Company  
14 Income Statement Adjustment AAW-9 shown on Schedule JMR-RB5, page 2, column N.

15  
16 *RUCO Income Statement Adjustment 8: Depreciation Expense*

17 **Q. DOES THE COMPANY AGREE WITH RUCO'S CALCULATION OF**  
18 **DEPRECIATION EXPENSE?**

19 A. The Company agrees with RUCO's method of calculating depreciation expense as well  
20 as its adjustment to reflect the correct amortization of the Mummy Mountain acquisition  
21 adjustment. However, we do not accept RUCO's proposal to reduce depreciation  
22 expense by one-fifth of one-half of the Company's pre-tax gain on the sale of land. I  
23 have explained why the Company does not accept this adjustment and why the  
24 Commission should accept our existing proposal to give 50 percent of the after-tax gain

1 on the sale of land to our customers in my response to RUCO witness Coley. As  
2 mentioned previously, the Company's revised depreciation expense calculation is  
3 reflected in Company Income Statement Adjustment AAW-14 shown on Schedule JMR-  
4 RB5, page 3, column V.

5  
6 *RUCO Income Statement Adjustment 9: Property Taxes*

7 **Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT**  
8 **ADJUSTMENT 9 TO DECREASE PROPERTY TAXES BY \$56,844 RELATED**  
9 **TO WHAT THE WITNESS CLAIMS ARE PROPERTY TAXES RELATED TO**  
10 **THE MILLER ROAD TREATMENT FACILITY ("MRTF") AND THEREFORE**  
11 **RECOVERED FROM MOTOROLA?**

12 **A.** No. The Company does not accept this adjustment because the Company's adjusted test  
13 year property taxes are already implicitly reduced for amounts that would be related the  
14 MRTF. This was accomplished by way of the current methodology used by the  
15 Company, Staff, and the Commission to calculate property taxes for regulatory purposes.  
16 This methodology utilizes *adjusted* revenues from regulated operations to calculate  
17 property taxes<sup>5</sup>, therefore excluding any property taxes that may be attributable to the  
18 MRTF. Assuming the actual property taxes that would be attributed to MRTF were  
19 anywhere close to the \$56,844 figure used by RUCO, this adjustment is a double-dip.  
20

---

<sup>5</sup> Commission Staff and the Company use adjusted utility revenues to calculate property taxes. RUCO uses unadjusted revenues, which include non-utility revenues.

1 **Q. WHY DO YOU IMPLY THAT THE \$56,844 FIGURE IS NOT**  
2 **REPRESENTATIVE OF THE PROPERTY TAXES THAT WOULD BE**  
3 **ATTRIBUTABLE TO THE MRTF?**

4 **A.** Because RUCO's figure is very likely significantly over-stated. The \$56,844 amount was  
5 simply what the Company accrued for the MRTF during the test year. RUCO took this  
6 amount and subtracted it from the Company's adjusted test year property taxes (which  
7 were already implicitly reduced by the correct amount.) Had RUCO estimated MRTF  
8 property taxes using monies received from Motorola and the Commission's current  
9 property tax calculation methodology, their adjustment would be significantly lower than  
10 currently proposed – roughly only \$14,000. Regardless of the appropriate calculation,  
11 the Company will not accept RUCO's adjustment because it is simply unnecessary.

12  
13 **Q. HAS THE COMPANY EVER BEEN REIMBURSED BY MOTOROLA FOR**  
14 **PROPERTY TAXES RELATED TO THE MRTF?**

15 **A.** No. The Company has never been reimbursed for property taxes by Motorola. The  
16 MRTF is included in centrally assessed property whereby property taxes are based on  
17 revenues from customers, and not property values. The monies received from Motorola  
18 are, arguably, "reimbursement" for operating expenses and not "revenues from  
19 customers." For this reason Motorola has disputed the issue of property taxes related to  
20 the MRTF.

21  
22 *RUCO Income Statement Adjustment 10: Property Taxes*

23 **Q. DOES THE COMPANY ACCEPT RUCO'S PROPERTY TAX CALCULATION?**

1 A. No. The Company does not accept this adjustment because the Commission has  
2 repeatedly found RUCO's property tax calculation to be unreasonable and inappropriate  
3 for ratemaking purposes. Attached hereto as Exhibit JMR-RB9, I have included excerpts  
4 from recent decisions in which the Commission explains why RUCO's adjustment is  
5 unacceptable.

6  
7 **Q. SHOULD THE COMMISSION ACCEPT THE "EVIDENCE" THAT RUCO'S**  
8 **PROPERTY TAX CALCULATION IS MORE APPROPRIATE, PRESENTED BY**  
9 **THE WITNESS ON PAGE 23, LINES 14 – 21 OF HIS TESTIMONY?**

10 A. No. The "evidence" provided by the witness simply does not reflect the information  
11 RUCO was provided. When asked to explain the basis for RUCO's testimony in  
12 Company data request AAW 5.1, the witness stated:

13  
14 In response to RUCO Data Request 4.01.b the Company  
15 provided documentation that the 2004 Property Tax  
16 *assessment* of \$56,844.00 for the MRTF was recorded in  
17 the Company's General Ledger under account code  
18 685200. (emphasis added)  
19

20 The above statement is inaccurate. RUCO has misinterpreted the Company's general  
21 ledger as indicating that property taxes of \$56,844 were *assessed* for the MRTF when  
22 that is not the case. The Company's general ledger clearly indicates that \$56,844 was the  
23 amount *accrued* by the Company.

24  
25 **Q. DOES THE ARIZONA DEPARTMENT OF REVENUE "ASSESS" PROPERTY**  
26 **TAXES EXPLICITLY FOR THE MRTF?**

1 A. No. As I've explained in the previous sub-section, the MRTF is included in centrally  
2 assessed property. To my knowledge, RUCO has made no attempt to estimate the  
3 amount of property taxes that would be attributable, or "assessed", to the MRTF using the  
4 appropriate methodology.

5  
6 Had RUCO estimated property taxes using the correct methodology (used by the  
7 Company, Staff, and the Commission) using both regulated revenues from operations and  
8 monies received from Motorola, they would have found that the difference between their  
9 estimate and the total amount actually assessed for Paradise Valley for 2005 is only  
10 approximately \$3,900. In other words, contrary to the witness' testimony, the evidence  
11 supports the Company's property tax calculation methodology and not RUCO's.

12  
13 *RUCO Income Statement Adjustment 11: Normalize Payroll Taxes*

14 **Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT**  
15 **ADJUSTMENT 11 TO REDUCE PAYROL TAXES BY \$17,204?**

16 A. As explained by Mr. Weber in his rebuttal testimony, the Company accepts RUCO's  
17 adjustment with exceptions. The Company's partial acceptance of this adjustment is  
18 reflected in Company Income Statement Adjustment AAW-10 shown on Schedule JMR-  
19 RB5, page 2, column R.

20  
21 *RUCO Income Statement Adjustment 12: Administrative and General Allocated Costs*

22 **Q. RUCO INCOME STATEMENT ADJUSTMENT 12 CONSISTS OF THREE SUB-**  
23 **ADJUSTMENTS. PLEASE SUMMARIZE THOSE ADJUSTMENTS.**

24 A. The components of RUCO Income Statement Adjustment 12 are:



- a. Reduce Arizona Corporate allocated Management Fees by \$62,478.
- b. Reduce Central Division Corporate district allocated Miscellaneous Expenses by \$1,204.
- c. Reduce Arizona Corporate allocated Miscellaneous Expenses by \$18,233.

**Q. WHY DID RUCO REDUCE ARIZONA CORPORATE ALLOCATED MANAGEMENT FEES BY \$62,478?**

A. According to the testimony of RUCO witness Moore:

Through discovery and the Company's response to RUCO Data Request 9.04, I removed all expenses associated with the Annual Incentive Plan and the Long-term Incentive Plan.<sup>6</sup>

**Q. IS THE WITNESS' TESTIMONY AN ACCURATE DEPICTION OF WHAT HE ACTUALLY DID?**

A. No. A review of his electronic workpapers and information the Company provided to RUCO indicates that the witness also removed numerous other costs not associated with the annual incentive plan ("AIP").

**Q. PLEASE PROVIDE A BREAKDOWN OF THE COSTS RUCO ACTUALLY REMOVED.**

A. See the following table:

---

<sup>6</sup> Moore direct, p. 26 at 21 - 23.

Table 4

|  |          |
|--|----------|
| American Water Incentive Plan (AIP)                                | \$18,517 |
| Performance Pay, Stay Bonus  | 1,520    |
| Other Reorganization/Downsizing and non-<br>incentive pay expenses | 42,441   |
| Total  | \$62,478 |

If the Commission were to accept this portion of RUCO's adjustment, it should only accept the \$20,037 (\$18,517 + \$1,520) actually related to AIP.

**Q. IS IT APPROPRIATE FOR ARIZONA-AMERICAN TO RECOVER AIP EXPENSES?**

**A.** Yes. Company witness Paul Townsley thoroughly discusses this issue in his rebuttal testimony.

**Q. DOES THE RUCO TESTIMONY CONCERNING AIP CONTAIN ADDITIONAL INACCURACIES?**

**A.** Yes. For example, the witness testifies that:

"The Company has a bonus award plan, which states no awards are payable unless the Company meets its financial performance target or if the employee does not meet his/her performance goals."<sup>7</sup>

As Mr. Townsley explains, the above statement is inaccurate and implies that the Company's AIP is tied solely to financial performance. The 2004 American Water AIP,

<sup>7</sup> See Moore direct, p. 27 at 3 – 5.

1 which has been provided to RUCO, clearly states that an employee can earn part of her  
2 award for each component; financial, operational, or individual - independent of the other  
3 components.

4  
5 **Q. HOW DOES THE COMPANY RESPOND TO RUCO'S SUGGESTION THAT IN**  
6 **THE CONTEXT OF THE AIP, EMPLOYEE PERFORMANCE IS REFLECTED**  
7 **BY A REDUCTION IN THE EMPLOYEE-TO-CUSTOMER RATIO?**

8 **A.** The witness alludes to such a performance gauge on page 27, lines 15 to 20 of his  
9 testimony. He states:

10  
11 Likewise, the achievement of the employee performance goals  
12 benefits stockholders. If the Company is successful in reducing its  
13 number of employees while maintaining its customer base, the  
14 additional profit will accrue to stockholders between rate cases.  
15

16 The above statement cannot be based on any information that was provided to RUCO  
17 regarding the American Water AIP. That information clearly states that of the  
18 operational component, 50 percent is weighted toward customer satisfaction, 25 percent  
19 toward environmental measures and goals, and 25 percent toward health and safety  
20 measures and goals. The individual component is based on 5 key performance indicators  
21 ("KPI's") agreed by upon by the AIP participant and their supervisor.  
22

23 To provide the Commission with an accurate description of the Company's AIP plan, I  
24 have attached a copy hereto as Exhibit JMR-RB10. RUCO's testimony on this issue is  
25 misleading to the Commission and the basis provided for their adjustment inaccurate.

1 For a more complete discussion on this issue, and additional response to RUCO's  
2 testimony, please see the rebuttal testimony of Mr. Townsley.

3  
4 **Q. WHY DID RUCO REDUCE CENTRAL DIVISION CORPORATE DISTRICT**  
5 **ALLOCATED MISCELLANEOUS EXPENSES BY \$1,204?**

6 **A.** According to the testimony:

7  
8 ...I determined there were test-year expenses that were non-  
9 recurring, previously disallowed by the ACC, and/or not required  
10 for the provisioning of water service, such as, expenses related to  
11 payments to Chambers of Commerce, non-profit organizations,  
12 donations, club memberships, gives, awards, extravagant corporate  
13 events and for various meals, lodging and refreshments.  
14

15 **Q. DOES THE COMPANY ACCEPT THIS ADJUSTMENT?**

16 **A.** The Company will partially accept this adjustment with the exception of those amounts  
17 related to; ice used for preserving water samples and hydrating meter readers, grounds  
18 keeping at the Sun City office, and security services at the Paradise Valley office. As  
19 explained by Company witness Brian Biesemeyer in his rebuttal testimony, these items  
20 are reasonable operating expenses and should be recovered. As Mr. Biesemeyer  
21 explains, amounts allocated to Paradise Valley related to ice, grounds keeping, and  
22 security services are \$162, \$741, and \$102, respectively, for a total of \$1,005. Therefore,  
23 the Company accepts \$199 (\$1,204 - \$1,005) of RUCO's adjustment. Partial acceptance  
24 of this component of RUCO Income Statement Adjustment 12 is reflected in Company  
25 Income Statement Adjustment AAW-11 shown on Schedule JMR-RB5, page 2, column  
26 S.  
27

1 **Q. WHY DID RUCO REDUCE ARIZONA CORPORATE ALLOCATED**  
2 **MISCELLANEOUS EXPENSES BY \$18,233?**

3 A. RUCO reduced Arizona Corporate Allocated Miscellaneous expenses for the same  
4 reasons stated above with respect to Central Division Corporate district allocated  
5 expenses.

6  
7 **Q. DOES THE COMPANY ACCEPT THIS ADJUSTMENT?**

8 A. As with the previous component of RUCO Income Statement Adjustment 12, the  
9 Company will partially accept this adjustment with exceptions. Those exceptions include  
10 the following items addressed by Mr. Biesemeyer in his rebuttal testimony: \$428 related  
11 to classified advertising to fill positions in Arizona, \$44 related to the maintenance of  
12 plants at the Phoenix office, \$83 related to a preliminary study of security renovation at  
13 the Sun City office, and \$435 related to employee recruitment. Exceptions addressed by  
14 Mr. Broderick in his rebuttal testimony include: \$2,733 related to the filling of an  
15 executive position, \$8,536 related to the amortization of the Call Center and Shared  
16 Services Center project costs, \$1,453 related to the non-lobbying portion of the  
17 Company's National Association of Water Companies ("NAWC") dues, and \$1,274  
18 related to directors fees. In total, and as shown on Schedule JMR-RB5, page 10, the  
19 Company takes exception to \$14,986 of RUCO's adjustment. Therefore, we accept  
20 (\$18,233 - \$14,986) \$3,247 of RUCO's adjustment. Partial acceptance of this component  
21 of RUCO Income Statement Adjustment 12 is reflected in Company Income Statement  
22 Adjustment AAW-12 shown on Schedule JMR-RB5, page 2, column T.

*RUCO Income Statement Adjustment 13: Capitalization of Expenses*

**Q. DOES THE COMPANY ACCEPT RUCO INCOME STATEMENT  
ADJUSTMENT 13 TO REDUCE OPERATIONS AND MAINTENANCE  
EXPENSES BY \$10,495 TO REFLECT THE CAPITALIZATION OF CERTAIN  
EXPENSES?**

**A.** Yes. The Company accepts this adjustment. The Company's acceptance of this adjustment is reflected in Company Income Statement Adjustment AAW-13 shown on Schedule JMR-RB5, page 3, column U.

*RUCO Income Statement Adjustment 16: Income Taxes*

**Q. ARE THE COMPANY AND RUCO IN AGREEMENT ON THE MANNER IN  
WHICH INCOME TAXES ARE CALCULATED?**

**A.** Yes. The Company and RUCO are in agreement on this issue. As mentioned previously, the Company's updated income tax calculation is reflected in Company Income Statement Adjustment AAW-16 shown on Schedule JMR-RB5, page 3, column X.

**D. Additional Revenue and Expense Adjustments**

*New Paradise Valley Country Club Contract Rate*

**Q. IS THE COMPANY PROPOSING ANY REVENUE ADJUSTMENTS AT THIS  
TIME?**

**A.** Yes. As explained by Mr. Broderick in his rebuttal testimony, on December 22, 2005, the company filed with the Commission a new contract with the Paradise Valley Country Club. Based on the terms of that contract and the assumption that it will be approved, the Company has included in the test year, additional annual revenue in the amount of

1           \$8,515. This additional revenue is reflected in Company Income Statement Adjustment  
2           AAW-17 shown on Schedule JMR-RB5, page 3, column Y.

3

4   **Q.    DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

5   **A.    Yes, it does.**

Filed testimony and/or Staff report in the following proceedings:

| Jurisdiction | Company Name(s)                         | Case No.          | Type of Proceeding         |
|--------------|---|-------------------|----------------------------|
| Arizona      | Ajo Improvement Co. - Electric          | E-01025A-99-0564  | Cost of Capital            |
| Arizona      | Alltel                                  | T-03285A-00-0874  | Sale of Assets             |
| Arizona      | Anway Manville Water                    | W-03233A-99-0360  | Financing                  |
| Arizona      | Arizona Public Service                  | E-01345A-03-0437  | Cost of Capital            |
| Arizona      | Arizona Public Service                  | E-01345A-01-0878  | Financing                  |
| Arizona      | Arizona Public Service                  | E-01345A-02-0125  | Financing                  |
| Arizona      | Arizona Water Company                   | W-01445A-00-0962  | Cost of Capital            |
| Arizona      | Arizona Water Company                   | W-01445A-02-0619  | Cost of Capital            |
| Arizona      | Arizona-American Water Company          | WS-01303A-02-0867 | Cost of Capital            |
| Arizona      | Arizona-American Water Company          | W-01303A-01-0983  | Restructure of Holding Co. |
| Arizona      | Avra Water Co-op                        | W-02126A-00-0269  | Rate of return             |
| Arizona      | Bella Vista Water                       | W-02465A-01-0776  | Cost of Capital            |
| Arizona      | Bella Vista Water                       | W-02465A-99-0466  | Financing                  |
| Arizona      | Black Mountain Gas                      | G-03703A-0283     | Cost of Capital            |
| Arizona      | Black Mountain Gas                      | G-03703A-01-0263  | Cost of Capital            |
| Arizona      | Black Mountain Gas/Northern States Pwr. | G-03703A-99-0525  | Restructure of Holding Co. |
| Arizona      | BLT, Touch One, MCI                     | T-03394A-00-0881  | Merger                     |
| Arizona      | Continental Divide Electric Co-op       | E-01824A-00-0504  | Sale of Assets             |
| Arizona      | Eschelon Telecom                        | T-03406A-01-0270  | Financing                  |
| Arizona      | Gateway Technologies/T-NETIX (COPT)     | T-02979B-99-0459  | Merger                     |
| Arizona      | Gold Canyon Sewer Company               | SW-02519A-00-0638 | Cost of Capital            |
| Arizona      | Golden Shores Water                     | W-01815A-99-0390  | Financing                  |
| Arizona      | Green Valley Water Co.                  | W-02025A-01-0559  | Cost of Capital            |
| Arizona      | GST Net/Time Warner Telecom             | T-03943A-00-0782  | Sale of Assets             |
| Arizona      | Lago Del Oro Water Company              | W-01944E-00-0206  | Financing                  |
| Arizona      | Litchfield Park Service Co.             | W-01427A-01-0487  | Cost of Capital            |
| Arizona      | Midvale Telephone                       | T-02532A-00-0512  | Cost of Capital            |
| Arizona      | Mountain Pass Utility                   | SW-03841A-01-0166 | Financing                  |
| Arizona      | Navopache Electric Co-op                | E-01787A-00-0820  | Financing                  |
| Arizona      | New River Utility                       | W-01737A-01-0662  | Cost of Capital            |
| Arizona      | North Mohave Valley Water               | W-02259A-99-0295  | Financing                  |
| Arizona      | Picacho Sewer Co.                       | SW-03709A-01-0165 | Financing                  |
| Arizona      | Picacho Water                           | W-03528A-01-0169  | Financing                  |
| Arizona      | Pine Water Company                      | W-03512A-03-0279  | Cost of Capital            |
| Arizona      | Premiere Communications/Telecare        | T-02668-00-0787   | Sale of Assets             |
| Arizona      | Qwest Communications                    | T-01051B-03-0454  | Cost of Capital            |
| Arizona      | Ridgeview Utility                       | W-03861A-01-0167  | Financing                  |
| Arizona      | Rio Rico Utilities, Inc.                | WS-02676A-03-0434 | Cost of Capital            |
| Arizona      | SBC Telecom                             | T-03811A-00-0762  | Waiver                     |
| Arizona      | Southwest Gas/Black Mountain Gas        | G-01551A-02-0425  | Merger                     |
| Arizona      | Southwestern Telephone                  | T-01072B-00-0379  | Cost of Capital            |
| Arizona      | Sulphur Springs Valley Electric Co-op   | E-01575A-00-0629  | Financing                  |
| Arizona      | Table Top Telephone                     | T-02724A-99-0595  | Cost of Capital            |



Joel M. Reiker  
American Water Works  
Relevant Regulatory Experience

Appendix A  
Page 2 of 2

|            |  |                  |                              |
|------------|--|------------------|------------------------------|
| Arizona    | Teligent                                 | T-0336A-00-01521 | Merger                       |
| Arizona    | Trico/AEPCO                              | E-01461A-00-0660 | Lease                        |
| Arizona    | Tucson Electric Power Company            | E-01933A-00-0550 | Sale of Assets               |
| Arizona    | Tucson Electric Power Company            | E-01933A-99-0573 | Capital Lease Amendment      |
| Arizona    | Tucson Electric Power Company            | E-01933A-02-0276 | Financing                    |
| Arizona    | UniSource Energy Corporation             | E-04230A-03-0933 | Reorganization/Merger        |
| Arizona    | Water Utility of Greater Buckeye         | W-02451A-98-0326 | Financing                    |
| Arizona    | Winstar Wireless                         | T-03670A-00-0446 | Encumbrance of Assets        |
| Arizona    | Yucca Water Co.                          | W-01937A-99-0260 | Financing                    |
| Arizona    | Graham Co. Utilities Water               | G-02527-97-0407  | Financing                    |
| Arizona    | Mount Tipton                             | W-02105A-01-0557 | Financing                    |
| Arizona    | Northern States Power/Black Mountain Gas | G-03703A-00-0235 | FUCO Certification           |
| Arizona    | Valley Pioneers Water Company            | W-02033A-00-0696 | Financing                    |
| California | California American Water Company        | A.06-01-005      | Cost of Capital              |
| New Mexico | New Mexico American Water Company        | 05-00353-UT      | Approval of Special Contract |

| LINE NO. | DESCRIPTION                               | [A]<br>COMPANY<br>ORIGINAL<br>AS FILED | [B]<br>COMPANY<br>REVISED<br>REBUTIAL |
|----------|---|--|---------------------------------------|
| 1        |   |  |                                       |
| 2        | Adjusted Rate Base                        | \$ 11,651,216                          | \$ 15,166,114                         |
| 3        |   |  |                                       |
| 4        | Adjusted Operating Income/(Loss)          | 742,769                                | 864,157                               |
| 5        |   |  |                                       |
| 6        | Current Rate of Return                    | 6.38%                                  | 5.70%                                 |
| 7        |   |  |                                       |
| 8        | Required Rate of Return                   | 7.84%                                  | 7.84%                                 |
| 9        |   |  |                                       |
| 10       | Required Operating Income                 | 913,455                                | 1,188,556                             |
| 11       |   |  |                                       |
| 12       | Operating Income Deficiency/(Excess)      | 170,886                                | 324,399                               |
| 13       |   |  |                                       |
| 14       | Gross Revenue Conversion Factor           | 1.6286                                 | 1.6286                                |
| 15       |   |  |                                       |
| 16       | Required Revenue Increase/(Decrease)      | 277,980                                | 528,328                               |
| 17       |   |  |                                       |
| 18       | Adjusted Test Year Revenue                | 5,070,680                              | 5,079,195                             |
| 19       |   |  |                                       |
| 20       | Proposed Annual Revenue                   | 5,348,660                              | 5,607,523                             |
| 21       |   |  |                                       |
| 22       | Required Increase/Decrease in Revenue (%) | 5.48%                                  | 10.40%                                |
| 23       |   |  |                                       |

References:  
 Column [A]: Company Schedules A-1, A-2, & D-1  
 Column [B]: Schedules JMR-RB2, JMR-RB4, Column [A]

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| LINE NO. | (A)<br>COMPANY<br>ORIGINAL<br>AS FILED | (B)<br>COMPANY<br>ADJUSTMENTS | (C)<br>COMPANY<br>REVISED<br>ADJUSTED |
|----------|--|-------------------------------|---------------------------------------|
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| LINE NO.                 | ACCT. NO.                               | DESCRIPTION                  | [A]<br>ORIGINAL COMPANY AS FILED | [B]<br>Blank | [C]<br>ADJ AAW-1<br>Accept Staff ADJ #2 Post test year Plant | [D]<br>ADJ AAW-2<br>Additional Amounts Related to Staff ADJ #2 | [E]<br>ADJ AAW-3<br>Additional Post test year Plant Jan. '06 Nanti Valley Dr. | [F]<br>ADJ AAW-4<br>Accept Staff ADJ #3 Accumulated Depreciation | [G]<br>Blank | [H]<br>ADJ AAW-5<br>Working Cash-Revised Lead/Lag Study | [I]<br>Blank |
|--------------------------|---|------------------------------|----------------------------------|--------------|--|--|---|--|--------------|---|--------------|
| <b>PLANT IN SERVICE:</b> |   |                              |                                  |              |  |  |   |  |              |   |              |
| 1                        | 300000                                  | Property Held For Future Use | \$ 138,682                       |              |  |  |   |  |              |   |              |
| 2                        | 301000                                  | Organization                 | 15,350                           |              |  |  |   |  |              |   |              |
| 3                        | 303500                                  | Land & Land Rights TD        | 8,324                            |              |  |  |   |  |              |   |              |
| 4                        | 304100                                  | Structures & Improvements SS | 7,953                            |              |  |  |   |  |              |   |              |
| 5                        | 304200                                  | Structures & Improvements P  | 69,131                           |              |  |  |   |  |              |   |              |
| 6                        | 304300                                  | Struct & Imp WT              | 3,038,848                        |              |  |  |   |  |              |   |              |
| 7                        | 304400                                  | Struct & Imp TD              | 23,864                           |              |  |  |   |  |              |   |              |
| 8                        | 304500                                  | Struct & Imp AG              | 20,130                           |              |  |  |   |  |              |   |              |
| 9                        | 304700                                  | Struct & Imp Store Shop, Gar | 93,285                           |              |  |  |   |  |              |   |              |
| 10                       | 304800                                  | Struct & Imp Misc            | 149,284                          |              |  |  |   |  |              |   |              |
| 11                       | 307000                                  | Wells & Springs              | 1,252,553                        |              |  |  |   |  |              |   |              |
| 12                       | 311200                                  | Pump Equip Electric          | 3,337,081                        |              |  |  |   |  |              |   |              |
| 13                       | 311300                                  | Pump Equip Diesel            | 59,421                           |              |  |  |   |  |              |   |              |
| 14                       | 320100                                  | WT Equip Non-Media           | 5,825,149                        |              |  |  |   |  |              |   |              |
| 15                       | 330000                                  | Dist Reservoirs & Standpipes | 912,619                          |              |  |  |   |  |              |   |              |
| 16                       | 331100                                  | TD Mains 4in & Less          | 706,252                          |              |  |  |   |  |              |   |              |
| 17                       | 331200                                  | TD Mains 6in to 8in          | 3,974,977                        |              |  |  |   |  |              |   |              |
| 18                       | 331300                                  | TD Mains 10in to 16in        | 5,485,424                        |              |  |  |   |  |              |   |              |
| 19                       | 333000                                  | Services                     | 2,178,857                        |              |  |  |   |  |              |   |              |
| 20                       | 334100                                  | Meters                       | 328,579                          |              |  |  |   |  |              |   |              |
| 21                       | 334200                                  | Meter Installations          | 103,799                          |              |  |  |   |  |              |   |              |
| 22                       | 335000                                  | Hydrants                     | 746,904                          |              |  |  |   |  |              |   |              |
| 23                       | 340100                                  | Office Furniture & Equip     | 63,617                           |              |  |  |   |  |              |   |              |
| 24                       | 340200                                  | Comp & Periph Equip          | 99,216                           |              |  |  |   |  |              |   |              |
| 25                       | 340300                                  | Computer Software            | 164,275                          |              |  |  |   |  |              |   |              |
| 26                       | 340500                                  | Other Office Equipment       | 25,224                           |              |  |  |   |  |              |   |              |
| 27                       | 341100                                  | Trans Equip LI Duty Trks     | 14,087                           |              |  |  |   |  |              |   |              |
| 28                       | 341300                                  | Trans Equip Autos            | 19,307                           |              |  |  |   |  |              |   |              |
| 29                       | 341400                                  | Trans Equip Other            | 13,606                           |              |  |  |   |  |              |   |              |
| 30                       | 343000                                  | Tools, Shop, Garage Equip    | 83,867                           |              |  |  |   |  |              |   |              |
| 31                       | 345000                                  | Power Operated Equipment     | 147,066                          |              |  |  |   |  |              |   |              |
| 32                       | 346100                                  | Comm Equip Non-Telephone     | 280,493                          |              |  |  |   |  |              |   |              |
| 33                       | 346300                                  | Comm Equip Other             | 81,454                           |              |  |  |   |  |              |   |              |
| 34                       |   |                              | \$ 29,478,687                    | \$ -         | \$ 3,018,867   | \$ 105,164   | \$ 420,755  | \$ -   | \$ -         | \$ -  | \$ -         |
| 35                       |   |                              |                                  |              |  |  |   |  |              |   |              |
| 36                       | AFUDC Debt                              |                              | 950                              |              |  |  |   |  |              |   |              |
| 37                       | Total Plant in Service                  |                              | \$ 29,479,637                    | \$ -         | \$ 3,018,867   | \$ 105,164   | \$ 420,755  | \$ -   | \$ -         | \$ -  | \$ -         |
| 38                       | Leas: Accumulated Depreciation          |                              | 9,913,899                        |              |  |  |   | 107,315  |              |   |              |
| 39                       | Net Plant in Service (L59 - L 60)       |                              | \$ 19,565,738                    | \$ -         | \$ 3,018,867   | \$ 105,164   | \$ 420,755  | \$ (107,315)   | \$ -         | \$ -  | \$ -         |
| 40                       |   |                              |                                  |              |  |  |   |  |              |   |              |
| <b>DEDUCTIONS:</b>       |   |                              |                                  |              |  |  |   |  |              |   |              |
| 41                       | Net Contribution in Aid of Construction |                              | 6,486,559                        |              |  |  |   |  |              |   |              |
| 42                       | Advances in Aid of Construction (AIAC)  |                              | 635,912                          |              |  |  |   |  |              |   |              |
| 43                       | Customer Deposits                       |                              | 3,500                            |              |  |  |   |  |              |   |              |
| 44                       | Meier Advances                          |                              | -                                |              |  |  |   |  |              |   |              |
| 45                       | Deferred Income Tax Credits             |                              | 1,139,528                        |              |  |  |   |  |              |   |              |
| 46                       | Total Deductions                        |                              | \$ 8,265,499                     | \$ -         | \$ -   | \$ -   | \$ -  | \$ -   | \$ -         | \$ -  | \$ -         |
| 47                       |   |                              |                                  |              |  |  |   |  |              |   |              |
| 48                       |   |                              |                                  |              |  |  |   |  |              |   |              |
| <b>ADDITIONS:</b>        |   |                              |                                  |              |  |  |   |  |              |   |              |
| 49                       | Working Capital Allowance               |                              | 350,946                          |              |  |  |   |  |              | (52,951)  |              |
| 50                       |   |                              |                                  |              |  |  |   |  |              |   |              |
| 51                       |   |                              |                                  |              |  |  |   |  |              |   |              |
| 52                       |   |                              |                                  |              |  |  |   |  |              |   |              |
| 53                       | Total Additions                         |                              | \$ 350,946                       | \$ -         | \$ -   | \$ -   | \$ -  | \$ -   | \$ -         | \$ (52,951)   | \$ -         |
| 54                       |   |                              |                                  |              |  |  |   |  |              |   |              |
| 55                       | Original Cost Rate Base                 |                              | \$ 11,651,215                    | \$ -         | \$ 3,018,867   | \$ 105,164   | \$ 420,755  | \$ (107,315)   | \$ -         | \$ (52,951)   | \$ -         |

| LINE NO.                 | ACCT. NO. | DESCRIPTION                             | [J]   | [K]<br>ADJ AAW-6                                | [L]<br>ADJ AAW-7  | [M]<br>ADJ AAW-8  | [N]<br>ADJ AAW-9                                     | [O]         | [P]   | [Q]   | [R]                |
|--------------------------|-----------|---|-------|---|---|---|--|-------------|-------|-------|--------------------|
|                          |           |   | Blank | Accept<br>RUCO ADJ#3<br>Capitalized<br>Expenses | Partially<br>Accept RUCO<br>ADJ #4<br>Mummy Mt.<br>Acquia, Adj. | Deferred<br>Depr. Exp. &<br>Accrued AFUDC<br>Dec. 88/03<br>Nov. '05 | Accum. Depr.<br>Related to<br>Rate Base ADJ<br>AAW-9 | Blank       | Blank | Blank | COMPANY<br>REVISED |
| <b>PLANT IN SERVICE:</b> |           |   |       |   |   |   |  |             |       |       |                    |
| 1                        | 300000    | Property Held For Future Use            |       |   |   |   |  |             |       |       | \$ 138,682         |
| 2                        | 301000    | Organization                            |       |   |   |   |  |             |       |       | 15,350             |
| 3                        | 303500    | Land & Land Rights TD                   |       |   |   |   |  |             |       |       | 8,324              |
| 4                        | 304100    | Structures & Improvements SS            |       |   |   |   |  |             |       |       | 7,953              |
| 5                        | 304200    | Structures & Improvements P             |       |   |   |   |  |             |       |       | 79,526             |
| 6                        | 304300    | Struct & Imp WT                         |       | 10,495  |   |   |  |             |       |       | 3,038,848          |
| 7                        | 304400    | Struct & Imp TD                         |       |   |   |   |  |             |       |       | 23,864             |
| 8                        | 304500    | Struct & Imp AG                         |       |   |   |   |  |             |       |       | 20,130             |
| 9                        | 304700    | Struct & Imp Store Shop, Gar            |       |   |   |   |  |             |       |       | 93,285             |
| 10                       | 304800    | Struct & Imp Misc                       |       |   |   |   |  |             |       |       | 149,284            |
| 11                       | 307000    | Wells & Springs                         |       |   |   |   |  |             |       |       | 1,252,563          |
| 12                       | 311200    | Pump Equip Electric                     |       |   |   |   |  |             |       |       | 3,337,081          |
| 13                       | 311300    | Pump Equip Diesel                       |       |   |   |   |  |             |       |       | 59,421             |
| 14                       | 320100    | WT Equip Non-Media                      |       |   |   |   |  |             |       |       | 5,825,149          |
| 15                       | 330000    | Dist Reservoirs & Standpipes            |       |   |   |   |  |             |       |       | 912,619            |
| 16                       | 331100    | TD Mains 4in & Less                     |       |   |   | 14,058  |  |             |       |       | 706,252            |
| 17                       | 331200    | TD Mains 6in to 8in                     |       |   |   | 143,316   |  |             |       |       | 4,408,791          |
| 18                       | 331300    | TD Mains 10in to 16in                   |       |   |   |   |  |             |       |       | 8,522,708          |
| 19                       | 333000    | Services                                |       |   |   |   |  |             |       |       | 2,178,857          |
| 20                       | 334100    | Meters                                  |       |   |   |   |  |             |       |       | 328,579            |
| 21                       | 334200    | Meter Installations                     |       |   |   |   |  |             |       |       | 103,799            |
| 22                       | 335000    | Hydrants                                |       |   |   |   |  |             |       |       | 988,184            |
| 23                       | 340100    | Office Furniture & Equip                |       |   |   |   |  |             |       |       | 63,617             |
| 24                       | 340200    | Comp & Periph Equip                     |       |   |   |   |  |             |       |       | 98,216             |
| 25                       | 340300    | Computer Software                       |       |   |   |   |  |             |       |       | 164,275            |
| 26                       | 340500    | Other Office Equipment                  |       |   |   |   |  |             |       |       | 25,224             |
| 27                       | 341100    | Trans Equip Lt Duty Trks                |       |   |   |   |  |             |       |       | 14,087             |
| 28                       | 341300    | Trans Equip Autos                       |       |   |   |   |  |             |       |       | 19,307             |
| 29                       | 341400    | Trans Equip Other                       |       |   |   |   |  |             |       |       | 13,606             |
| 30                       | 343000    | Tools, Shop, Garage Equip               |       |   |   |   |  |             |       |       | 83,867             |
| 31                       | 345000    | Power Operated Equipment                |       |   |   |   |  |             |       |       | 147,066            |
| 32                       | 346100    | Comm Equip Non-Telephone                |       |   |   |   |  |             |       |       | 290,493            |
| 33                       | 346300    | Comm Equip Other                        |       |   |   |   |  |             |       |       | 81,454             |
| 34                       |           |   |       | - \$  | 10,495 \$   | - \$  | 168,590 \$   | - \$        | - \$  | - \$  | 33,202,558         |
| 35                       |           |   |       | - \$  | - \$  | - \$  | - \$   | - \$        | - \$  | - \$  | 950                |
| 36                       |           | AFUDC Debt                              |       |   |   |   |  |             |       |       | 33,203,508         |
| 37                       |           | Total Plant in Service                  |       | 10,495 \$                                       | - \$  | 168,590 \$  | - \$   | - \$        | - \$  | - \$  | 10,077,665         |
| 38                       |           | Less: Accumulated Depreciation          |       |   |   |   | 56,481   |             |       |       | 23,125,844         |
| 39                       |           | Net Plant in Service (L59 - L 60)       |       | 10,495 \$                                       | - \$  | 168,590 \$  | (56,481) \$  | - \$        | - \$  | - \$  |                    |
| 40                       |           |   |       |   |   |   |  |             |       |       |                    |
| 41                       |           | <b>DEDUCTIONS:</b>                      |       |   |   |   |  |             |       |       |                    |
| 42                       |           | Net Contribution In Aid of Construction |       |   |   |   |  |             |       |       | 6,486,559          |
| 43                       |           | Advances in Aid of Construction (AIAC)  |       |   |   |   |  |             |       |       | 635,912            |
| 44                       |           | Customer Deposits                       |       |   |   |   |  |             |       |       | 3,500              |
| 45                       |           | Meter Advances                          |       |   |   |   |  |             |       |       |                    |
| 46                       |           | Deferred Income Tax Credits             |       |   |   |   |  |             |       |       | 1,139,528          |
| 47                       |           | Total Deductions                        |       | - \$  | - \$  | - \$  | - \$   | - \$        | - \$  | - \$  | 8,265,499          |
| 48                       |           |   |       |   |   |   |  |             |       |       |                    |
| 49                       |           | <b>ADDITIONS:</b>                       |       |   |   |   |  |             |       |       |                    |
| 50                       |           | Working Capital Allowance               |       |   | 7,774   |   |  |             |       |       | 305,769            |
| 51                       |           |   |       |   |   |   |  |             |       |       |                    |
| 52                       |           | Total Additions                         |       | - \$  | - \$  | 7,774 \$  | - \$   | - \$        | - \$  | - \$  | 305,769            |
| 53                       |           |   |       |   |   |   |  |             |       |       |                    |
| 54                       |           | Original Cost Rate Base                 |       | - \$  | 10,495 \$   | 7,774 \$  | 168,590 \$   | (56,481) \$ | - \$  | - \$  | 15,186,114         |
| 55                       |           |   |       |   |   |   |  |             |       |       |                    |

| Line No. | (A)<br>Etoiled             | (B)<br>Work Order | (C)<br>Account No. | (D)<br>Description             | (E)<br>Amount       |
|----------|----------------------------|-------------------|--------------------|--------------------------------|---------------------|
| 1        |                            |                   |                    |                                |                     |
| 2        |                            |                   |                    |                                |                     |
| 3        |                            |                   |                    |                                |                     |
| 4        |                            |                   |                    |                                |                     |
| 5        | Jackrabbl/Invergordon Main | 50069621          | 23020003.105150.31 | CWIP M&S-Plant                 | 42.60               |
| 6        |                            |                   | 23020003.105200.31 | CWIP Co Labor-Plant            | 18,982.73           |
| 7        |                            |                   | 23020003.105250.31 | CWIP Labor OH-Plant            | 10,849.03           |
| 8        |                            |                   | 23020003.105260.21 | CWIP Overhead-Infrast          | 12,678.55           |
| 9        |                            |                   | 23020003.105280.31 | CWIP Overhead-Plant            | 58,854.83           |
| 10       |                            |                   |                    | Additional Amounts at Closing: | 2,172.50            |
| 11       |                            |                   | 23020003.105275.21 | CWIP Contr Svc-Infrast         | 10,575.71           |
| 12       |                            |                   | 23020003.105275.31 | CWIP Contr Svc-Plant           | 1,666,131.42        |
| 13       |                            |                   |                    | Additional Amounts at Closing: | 28,855.02           |
| 14       |                            |                   | 23020003.105280.31 | CWIP Retainage-Plant           | 168,698.05          |
| 15       |                            |                   | 23020003.105350.31 | CWIP AFUDC Debt-Plant          | 40,143.29           |
| 16       |                            |                   |                    | Additional Amounts at Closing: | 148.70              |
| 17       |                            |                   | 23020003.105375.31 | CWIP AFUDC Eqty-Plant          | 74,380.33           |
| 18       |                            |                   |                    | Additional Amounts at Closing: | 275.50              |
| 19       |                            |                   | 23020003.105390.31 | CWIP Tran PY Chg-Plant         | (11,221.11)         |
| 20       |                            |                   |                    | Total Additional at Closing    | 31,451.72           |
| 21       |                            |                   |                    | Total for Project              | <u>2,081,566.95</u> |
| 22       |                            |                   |                    |                                |                     |
| 23       |                            |                   |                    |                                |                     |
| 24       |                            |                   |                    |                                |                     |
| 25       |                            |                   |                    |                                |                     |
| 26       | McDonald Main Extension    | 50078718          | 23020501.105200.21 | CWIP Co Labor-Infrast          | 5,500.78            |
| 27       |                            |                   | 23020501.105250.21 | CWIP Labor OH-Infrast          | 3,947.90            |
| 28       |                            |                   | 23020501.105260.21 | CWIP Overhead-Infrast          | 22,020.99           |
| 29       |                            |                   |                    | Additional Amounts at Closing: | 5,103.45            |
| 30       |                            |                   | 23020501.105275.21 | CWIP Contr Svc-Infrast         | 314,155.57          |
| 31       |                            |                   |                    | Additional Amounts at Closing: | 88,606.08           |
| 32       |                            |                   | 23020501.105275.31 | CWIP Contr Svc-Plant           | 392,041.09          |
| 33       |                            |                   | 23020501.105390.21 | CWIP AFUDC Debt-Infrast        | 3,471.38            |
| 34       |                            |                   | 23020501.105375.21 | CWIP AFUDC Eqty-Infrast        | 6,432.76            |
| 35       |                            |                   |                    | Total Additional at Closing    | 73,712.53           |
| 36       |                            |                   |                    | Total for Project              | <u>821,283.00</u>   |
| 37       |                            |                   |                    |                                |                     |
| 38       |                            |                   |                    |                                |                     |
| 39       |                            |                   |                    |                                |                     |
| 40       |                            |                   |                    |                                |                     |
| 41       |                            |                   |                    |                                |                     |
| 42       |                            |                   |                    |                                |                     |
| 43       |                            |                   |                    |                                |                     |
| 44       |                            |                   |                    |                                |                     |
| 45       |                            |                   |                    |                                |                     |
| 46       |                            |                   |                    |                                |                     |
| 47       |                            |                   |                    |                                |                     |
| 48       |                            |                   |                    |                                |                     |
| 49       |                            |                   |                    |                                |                     |
| 50       |                            |                   |                    |                                |                     |
| 51       |                            |                   |                    |                                |                     |
| 52       |                            |                   |                    |                                |                     |
| 53       |                            |                   |                    |                                |                     |
| 54       |                            |                   |                    |                                |                     |
| 55       |                            |                   |                    |                                |                     |

Total Additional at Closing (both projects)

| Line No. |  | Contract Amount | Amount Invoiced | Balance for Naumi | Overall Total (NTE) |
|----------|--|-----------------|-----------------|-------------------|---------------------|
| 1        | PV Fire Flow Improvement Program   |                 |                 |                   |                     |
| 2        | Naumi Valley Drive Main Replacement Account Review (Principle Charges at Substantial Completion)               |                 |                 |                   |                     |
| 3        | 1/28/08 (rev. 1) - b. vanderson  |                 |                 |                   |                     |
| 4        |  |                 |                 |                   |                     |
| 5        |  |                 |                 |                   |                     |
| 6        | Engineering & Inspection (B&C)   | \$9,504.00      | \$9,504.00      | \$0.00            |                     |
| 7        | Design Services  |                 |                 |                   |                     |
|          | Utility Pot-holing for Naumi Valley Dr.  |                 |                 |                   |                     |
|          | (part of B&C task order amendment #1)  | see note 3      | \$3,884.35      | \$0.00            |                     |
| 8        |  |                 |                 |                   |                     |
| 9        | Inspection Services (part of B&C task order amendment #2, NTE price)   | \$47,600.00     | \$19,188.75     | \$28,411.25       |                     |
| 10       | Bid Services   | see note 1      | \$3,079.25      | \$0.00            |                     |
| 11       | Construction Admin Services  | see note 2      | \$7,715.20      | \$0.00            |                     |
| 12       | Construction (B&F)   |                 |                 |                   |                     |
|          | Installation, pay application #1 (see note 4)  | \$279,427.00    | \$251,484.30    | see below         |                     |
| 13       |  |                 |                 |                   |                     |
| 14       | Installation, pay application #2 (see note 4)  | see above       | \$27,942.70     | \$0.00            |                     |
| 15       | Other  |                 |                 |                   |                     |
| 16       | Permit fee (MCESD)   | \$500.00        | \$500.00        | \$0.00            |                     |
|          | Pending plumbing repair to sprinkler system for resident (service line broken during construction, see note 5) |                 |                 |                   |                     |
| 17       |  | \$500.00        | \$0.00          | \$500.00          |                     |
| 18       | Subtotal   |                 | \$323,278.55    | \$28,911.25       |                     |
| 19       | Company Labor (see note 6)   | n/a             | \$8,644.98      | \$2,500.00        |                     |
| 20       | AFUDC (see note 7)   | n/a             | \$29,027.59     | \$2,745.34        |                     |
| 21       | Overhead (see note 8)  | n/a             | \$23,248.65     | \$2,198.79        |                     |
| 22       | Total  |                 | \$384,399.75    | \$36,355.38       | \$420,755.13        |

Notes:

- 1 Total "Bid Services" amount paid of \$12,317.00 is for multiple B&C projects but three projects have been bid with amount paid being \$9,237.75; thus, Naumi portion equates to 1/3 of the total (\$3,079.25).
- 2 Total "Construction Admin Services" amount of \$38,576.00 is for multiple B&C projects but two projects are being executed with amount paid being \$15,430.40; thus, Naumi portion equates to 1/2 of the total (\$7,715.20).
- 3 Total change order number 1 (task order amendment #1) is inclusive of the Naumi Valley Drive scope change.
- 4 A 10% retainage has not been released to the Contractor, figures represent "booked" values.
- 5 Estimated price was preliminary estimate from landscaper to resident, more to follow.
- 6 Amount invoiced/actual based on 50% of payroll distribution report total of \$17,689.92 (lime split assumes Lincoln Drive design at 30% & balance of others, Tatum Blvd in particular, at 20% of overall total).
- 7 AFUDC at 8.74% (per input from Asset & Capital Planning Group).
- 8 Overhead at 7% (rate fluctuates, ok to use per input from Asset & Capital Planning Group).

ARIZONA-AMERICAN WATER COMPANY  
PARADISE VALLEY WATER DISTRICT  
Docket No. WS-01303A-05-0405  
Test Year Ended December 10, 2004  
Company Rate Base Adjustment AAW-5

| LINE NO. |   |                       |
|----------|---|-----------------------|
| 1        | Company Adjustment to Working Cash Requirement                                  |                       |
| 2        |   | \$ 168,133            |
| 3        | Original Working Cash requirement - Per Application                             |                       |
| 4        |   | 115,182               |
| 5        | Revised Working Cash requirement - Per Exhibit JMR-RB4, Corrected Leadlag Study |                       |
| 6        |   | <u>\$ (52,950.75)</u> |
| 7        | Increase/(decrease) in Working Cash Requirement                                 |                       |
| 8        |   | <u>\$ (52,950.75)</u> |
| 9        | Increase/(decrease) in Rate Base  |                       |
| 10       |   |                       |
| 11       |   |                       |
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| 54       |   |                       |
| 55       |   |                       |



ARIZONA-AMERICAN WATER COMPANY  
PARADISE VALLEY WATER DISTRICT  
Docket No. WS-01303A-05-0405  
Company Rate Base Adjustment AAW-9 & AAW-9

| Line No. | [A]<br>Asset No. | [B]<br>Description          | [C]<br>Date in Svc. | [D]<br>Amount | [E]<br>Depr Rate | [F]<br>October | [G]<br>November | [H]<br>December | [I]<br>January | [J]<br>February | [K]<br>March | [L]<br>April | [M]<br>May | [N]<br>June | [O]<br>July | [P]<br>Total |
|----------|------------------|-----------------------------|---------------------|---------------|------------------|----------------|-----------------|-----------------|----------------|-----------------|--------------|--------------|------------|-------------|-------------|--------------|
| 1        |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 2        |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 3        | 30087568         | Jackrabbit/Invergordon Main | Oct. 2005           | \$ 2,081,567  | 2.34%            | \$ 2,030       | \$ 4,059        | \$ 4,059        | \$ 4,059       | \$ 4,059        | \$ 4,059     | \$ 4,059     | \$ 4,059   | \$ 4,059    | \$ 4,059    | \$ 34,502    |
| 4        | 30101100         | McDonald Main Extension     | Oct. 2005           | 821,283       | 2.34%            | 801            | 1,602           | 1,602           | 1,602          | 1,602           | 1,602        | 1,602        | 1,602      | 1,602       | 1,602       | 13,617       |
| 5        | 30089173         | Fire Hydrants               | Oct. 2005           | 235,204       | 2.10%            | 208            | 412             | 412             | 412            | 412             | 412          | 412          | 412        | 412         | 412         | 3,502        |
| 6        |                  | Total Deferral              |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             | 51,621       |
| 7        |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 8        |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 9        |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 10       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 11       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 12       | 30087568         | Jackrabbit/Invergordon Main | Oct. 2005           | \$ 2,081,567  | 4.77%            | \$ 2,069       | \$ 8,274        | \$ 8,274        | \$ 8,274       | \$ 8,274        | \$ 8,274     | \$ 8,274     | \$ 8,274   | \$ 8,274    | \$ 8,274    | \$ 68,261    |
| 13       | 30101100         | McDonald Main Extension     | Oct. 2005           | 821,283       | 4.77%            | 816            | 3,265           | 3,265           | 3,265          | 3,265           | 3,265        | 3,265        | 3,265      | 3,265       | 3,265       | 28,936       |
| 14       | 30089173         | Fire Hydrants               | Oct. 2005           | 235,204       | 4.77%            | 234            | 935             | 935             | 935            | 935             | 935          | 935          | 935        | 935         | 935         | 7,714        |
| 15       |                  | Total Deferral              |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             | 102,911      |
| 16       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 17       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 18       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 19       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 20       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 21       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 22       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 23       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 24       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 25       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 26       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 27       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 28       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 29       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 30       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 31       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 32       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 33       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 34       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 35       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 36       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 37       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 38       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 39       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 40       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 41       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 42       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 43       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 44       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 45       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 46       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 47       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 48       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 49       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 50       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 51       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 52       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 53       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 54       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |
| 55       |                  |                             |                     |               |                  |                |                 |                 |                |                 |              |              |            |             |             |              |

| LINE NO. | DESCRIPTION  | [A]<br>COMPANY<br>ORIGINAL<br>ADJUSTED<br>TEST YEAR<br>AS FILED | [B]<br>COMPANY<br>REBUTTAL<br>TEST YEAR<br>ADJUSTMENTS | [C]<br>COMPANY<br>REBUTTAL<br>TEST YEAR<br>AS<br>ADJUSTED | [D]<br>COMPANY<br>REBUTTAL<br>PROPOSED<br>CHANGES | [E]<br>COMPANY<br>REBUTTAL<br>AT PROPOSED<br>RATES |
|----------|--|---|--|---|---|--|
| 1        | REVENUES:  |   |  |   |   |  |
| 2        | Operating Revenue                                      | \$ 5,070,680  | \$ 8,515   | \$ 5,079,195  | \$ 528,328  | \$ 5,607,523                                       |
| 3        | Total Operating Revenues                               | \$ 5,070,680  | \$ 8,515   | \$ 5,079,195  | \$ 528,328  | \$ 5,607,523                                       |
| 4        |  |   |  |   |   |  |
| 5        | OPERATING EXPENSES:                                    |   |  |   |   |  |
| 6        | Operations   | 2,826,742   | (153,317)  | 2,673,425   | -   | 2,673,425  |
| 7        | Maintenance  | 298,930   | (29,473)   | 269,457   | -   | 269,457  |
| 8        | Depreciation Expense                                   | 720,578   | 78,655   | 799,233   | -   | 799,233  |
| 9        |  | \$ 3,844,250  | \$ (104,135)   | \$ 3,740,115  | \$ -  | \$ 3,740,115                                       |
| 10       | TAXES  |   |  |   |   |  |
| 11       | Property Taxes   | 213,241   | 2,973  | 216,214   | -   | 216,214  |
| 12       | Payroll  | 54,718  | (12,311)   | 42,405  | -   | 42,405   |
| 13       | State Income   | 38,940  | 108  | 39,048  | 38,814  | 75,862   |
| 14       | Federal Income   | 176,765   | 491  | 177,256   | 167,115   | 344,371  |
| 15       | Total Taxes  | \$ 483,662  | \$ (6,739)   | \$ 476,923  | \$ 203,929  | \$ 678,852   |
| 16       |  |   |  |   |   |  |
| 17       | Total Operating Expenses                               | \$ 4,327,912  | \$ (112,874)   | \$ 4,215,038  | \$ 203,929  | \$ 4,418,967                                       |
| 18       | Operating Income (Loss)                                | \$ 742,768  | \$ 121,389   | \$ 864,157  | \$ 324,399  | \$ 1,188,556                                       |
| 19       |  |   |  |   |   |  |
| 20       | References:  |   |  |   |   |  |
| 21       | Column [A]: Company Schedule C-1                       |   |  |   |   |  |
| 22       | Column [B]: Schedule JMR-RB5, Pages 1-3                |   |  |   |   |  |
| 23       | Column [C]: Column [A] + Column [B]                    |   |  |   |   |  |
| 24       | Column [D]: Schedules JMR-RB1 & JMR-RB5, Pages 12 - 13 |   |  |   |   |  |
| 25       | Column [E]: Column [C] + Column [D]                    |   |  |   |   |  |
| 26       |  |   |  |   |   |  |
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| LINE NO. | DESCRIPTION              | (A)<br>COMPANY<br>ORIGINAL<br>ADJUSTED<br>AS FILED | (B)<br>ADJ AAW-1<br>Accept<br>Staff ADJ #1<br>Purch Water | (C)<br>Blank | (D)<br>ADJ AAW-2<br>Accept<br>Staff ADJ #3 &<br>RUCO ADJ #7<br>Cont Labor | (E)<br>ADJ AAW-3<br>Accept<br>Staff ADJ #4 &<br>RUCO ADJ #6<br>M&S Inventory | (F)<br>ADJ AAW-4<br>Company<br>Revised<br>Rate Case<br>Expense | (G)<br>Blank | (H)<br>ADJ AAW-5<br>Correct &<br>Accept<br>RUCO ADJ #1<br>Office Lease | (I)<br>ADJ AAW-6<br>Accept<br>RUCO ADJ #2<br>Group Ins. | (J)<br>ADJ AAW-7<br>Accept<br>RUCO ADJ #3<br>SEPER |
|----------|--------------------------|--|---|--------------|---|--|--|--------------|--|---|--|
| 1        | REVENUES:                |  |   |              |   |  |  |              |  |   |  |
| 2        | Operating Revenue        | \$ 5,070,660                                       |   |              |   |  |  |              |  |   |  |
| 3        | Total Operating Revenues | \$ 5,070,660                                       |   |              |   |  |  |              |  |   |  |
| 4        |                          |  |   |              |   |  |  |              |  |   |  |
| 5        | OPERATING EXPENSES:      |  |   |              |   |  |  |              |  |   |  |
| 6        | Operations               | 2,826,742  | (38,660)  |              | (32,389)  | (11,184)   | 6,331  |              | (1,185)  | (2,972)   | (2,093)  |
| 7        | Maintenance              | 296,930  |   |              |   |  |  |              |  |   |  |
| 8        | Depreciation Expense     | 720,578  |   |              |   |  |  |              |  |   |  |
| 9        |                          | \$ 3,844,250                                       | (38,660)  |              | (32,389)  | (11,184)   | 6,331  |              | (1,185)  | (2,972)   | (2,093)  |
| 10       | TAXES                    |  |   |              |   |  |  |              |  |   |  |
| 11       | Property Taxes           | 213,241  |   |              |   |  |  |              |  |   |  |
| 12       | Payroll                  | 54,716   |   |              |   |  |  |              |  |   |  |
| 13       | State Income             | 38,940   |   |              |   |  |  |              |  |   |  |
| 14       | Federal Income           | 176,765  |   |              |   |  |  |              |  |   |  |
| 15       | Total Taxes              | \$ 483,662   |   |              |   |  |  |              |  |   |  |
| 16       |                          | \$ 4,327,912                                       | (38,660)  |              | (32,389)  | (11,184)   | 6,331  |              | (1,185)  | (2,972)   | (2,093)  |
| 17       | Total Operating Expenses |  |   |              |   |  |  |              |  |   |  |
| 18       | Operating Income (Loss)  | \$ 742,768   | 38,660  |              | 32,389  | 11,184   | (6,331)  |              | 1,185  | 2,972   | 2,093  |

| LINE NO. | DESCRIPTION                | Blank | RUCO ADJ.#5 Pension | Blank | RUCO ADJ.#7 Labor | Blank | Blank | Blank | RUCO ADJ.#11 Payroll Tax | RUCO ADJ.#12 Gen. Div. | RUCO ADJ.#12 A.S. Corp. |
|----------|----------------------------|-------|---------------------|-------|-------------------|-------|-------|-------|--------------------------|------------------------|-------------------------|
| 1        | <b>REVENUES:</b>           |       |                     |       |                   |       |       |       |                          |                        |                         |
| 2        | Operating Revenue          |       |                     |       |                   |       |       |       |                          |                        |                         |
| 3        | Total Operating Revenues   | \$ -  | \$ -                | \$ -  | \$ -              | \$ -  | \$ -  | \$ -  | \$ -                     | \$ -                   | \$ -                    |
| 4        |                            |       |                     |       |                   |       |       |       |                          |                        |                         |
| 5        | <b>OPERATING EXPENSES:</b> |       |                     |       |                   |       |       |       |                          |                        |                         |
| 6        | Operations                 |       | (9,158)             |       | (56,714)          |       |       |       |                          | (199)                  | (3,247)                 |
| 7        | Maintenance                |       |                     |       | (20,826)          |       |       |       |                          |                        |                         |
| 8        | Depreciation Expense       |       |                     |       |                   |       |       |       |                          |                        |                         |
| 9        |                            | \$ -  | \$ (9,158)          | \$ -  | \$ (77,539)       | \$ -  | \$ -  | \$ -  | \$ -                     | \$ (199)               | \$ (3,247)              |
| 10       | <b>TAXES</b>               |       |                     |       |                   |       |       |       |                          |                        |                         |
| 11       | Property Taxes             |       |                     |       |                   |       |       |       | (12,311)                 |                        |                         |
| 12       | Payroll                    |       |                     |       |                   |       |       |       |                          |                        |                         |
| 13       | State Income               |       |                     |       |                   |       |       |       |                          |                        |                         |
| 14       | Federal Income             |       |                     |       |                   |       |       |       |                          |                        |                         |
| 15       | Total Taxes                | \$ -  | \$ -                | \$ -  | \$ -              | \$ -  | \$ -  | \$ -  | \$ (12,311)              | \$ -                   | \$ -                    |
| 16       |                            |       |                     |       |                   |       |       |       |                          |                        |                         |
| 17       | Total Operating Expenses   | \$ -  | \$ (9,158)          | \$ -  | \$ (77,539)       | \$ -  | \$ -  | \$ -  | \$ (12,311)              | \$ (199)               | \$ (3,247)              |
| 18       |                            |       |                     |       |                   |       |       |       |                          |                        |                         |
| 19       | Operating Income (Loss)    | \$ -  | \$ 9,158            | \$ -  | \$ 77,539         | \$ -  | \$ -  | \$ -  | \$ 12,311                | \$ 199                 | \$ 3,247                |



| Line No. |   |  |
|----------|---|--|
| 1        | Revised Rate Case Expense                                 |  |
| 2        |   |  |
| 3        | Updated Rate Case Expense (Broderick Rebuttal)            |  |
| 4        |   |  |
| 5        | Annual Rate Case Expense based on three year amortization |  |
| 6        |   |  |
| 7        | Annual Rate Case Expense in application                   |  |
| 8        |   |  |
| 9        | Adjustment to Operations Expense                          |  |
| 10       |   |  |
| 11       | Adjustment to Revenues/Expense                            |  |
| 12       |   |  |
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| 14       |   |  |
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|    |              |
|----|--------------|
| \$ | 301,832      |
|    | 100,611      |
|    | 94,280       |
| \$ | <u>6,331</u> |
| \$ | <u>6,331</u> |

| Line No. |  |  |
|----------|--|--|
| 1        | Correct RUCO Income Statement Adjustment 1: Reclassification of Office Lease |  |
| 2        |  |  |
| 3        | Total adjustment to Office Lease expense per Moore direct testimony          |  |
| 4        |  |  |
| 5        | Paradise Valley 4-Factor Allocation  |  |
| 6        |  |  |
| 7        | Adjustment to Operations Expense   |  |
| 8        |  |  |
| 9        | Adjustment to Revenues/Expense   |  |
| 10       |  |  |
| 11       |  |  |
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|    |          |
|----|----------|
| \$ | (14,593) |
|    | 8.12%    |
| \$ | (1,185)  |
| \$ | (1,185)  |

| Line No. |   |            |
|----------|---|------------|
| 1        | Partially Accept RUCO ADJ #5: Pension Expense                           |            |
| 2        |   |            |
| 3        |   |            |
| 4        | See rebuttal testimony of Company witness David L. Weber, Exhibit DLW-1 |            |
| 5        |   |            |
| 6        | Company accepted portion of RUCO adjustment                             | \$ (9,158) |
| 7        |   |            |
| 8        |   |            |
| 9        |   |            |
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| Line No. |  |            |
|----------|--|------------|
| 1        | Partially Accepted RUCO ADJ #7: Labor                                    |            |
| 2        |  |            |
| 3        |  |            |
| 4        | See rebuttal testimony of Company witness David L. Weber, Exhibit DLW-1  |            |
| 5        |  |            |
| 6        | Company accepted portion of RUCO adjustment to Operations Labor Expense  | (\$56,714) |
| 7        | Company accepted portion of RUCO adjustment to Maintenance Labor Expense | (\$20,825) |
| 8        |  |            |
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| Line No. |   |
|----------|---|
| 1        | Partially Accept RUCO ADJ #11: Payroll Tax                              |
| 2        |   |
| 3        |   |
| 4        | See rebuttal testimony of Company witness David L. Weber, Exhibit DLW-1 |
| 5        |   |
| 6        | Company accepted portion of RUCO adjustment                             |
| 7        |   |
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(\$12,311)

| Line No. |   |            |
|----------|---|------------|
| 1        | Partially Accept RUCO ADJ #12 Related to Central Division Corporate District Allocated Misc. Expenses |            |
| 2        |   |            |
| 3        | Total RUCO Adjustment to Operations Expense (Moore Dir., Sch. TLM-12, p. 1, line 3)                   | \$ (1,204) |
| 4        |   |            |
| 5        | Paradise Valley's portion of miscellaneous expenses related to Ice (Blessemeyer Rebuttal)             | 182        |
| 6        |   |            |
| 7        | Paradise Valley's portion of grounds keeping at Sun City operations center (Blessemeyer Rebuttal)     | 741        |
| 8        |   |            |
| 9        | Security Service Expense related to Paradise Valley Office (Blessemeyer Rebuttal)                     | 102        |
| 10       |   |            |
| 11       |   |            |
| 12       | Adjustment to Operations Expense  | \$ (199)   |
| 13       |   |            |
| 14       | Adjustment to Revenues/Expense  | \$ (199)   |
| 15       |   |            |
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| Line No. |   |             |
|----------|---|-------------|
| 1        | Partially Accept RUCO ADJ #12 Related to Arizona Corporate Allocated Misc. Expenses |             |
| 2        |   |             |
| 3        | RUCO Adjustment to Arizona Corporate Allocated Misc. Exp.                           |             |
| 4        | (Moore Dir. Sch. RLM-12, p. 1, line 4)  |             |
| 5        |   |             |
| 6        | Human Resources classified advertising to fill positions in AZ and maintenance      | \$ (18,233) |
| 7        |   | 428         |
| 8        | Maintenance of indoor plants at Phoenix Offices (Blasemeyer Rebuttal)               | 44          |
| 9        |   |             |
| 10       | Preliminary study for security renovation of Sun City office (Blasemeyer Rebuttal)  | 83          |
| 11       |   |             |
| 12       | Employment Recruitment (Blasemeyer Rebuttal)  | 435         |
| 13       |   |             |
| 14       | Executive search fee related to Engineering Manager position (Broderick Rebuttal)   | 2,733       |
| 15       |   |             |
| 16       | Amortization of Call Center & SSC proj. costs. (Broderick Rebuttal)                 | 8,536       |
| 17       |   |             |
| 18       | NAWC non-lobbying annual dues (Broderick Rebuttal)                                  | 1,453       |
| 19       |   |             |
| 20       | Directors Fees (Broderick Rebuttal)   | 1,274       |
| 21       |   |             |
| 22       | Adjustment to Operations Expense  | \$ (3,247)  |
| 23       |   |             |
| 24       | Adjustment to Revenues/Expense  | \$ (3,247)  |
| 25       |   |             |
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| LINE NO. | DESCRIPTION   | ORIGINAL COST | RATE   | EXPENSE      |
|----------|---|---------------|--------|--------------|
| 1        | 300000 Property Held For Future Use   | 138,882       | 0.00%  | \$           |
| 2        | 301000 Organization   | 15,350        | 0.00%  |              |
| 3        | 303500 Land & Land Rights TD  | 8,324         | 0.00%  |              |
| 4        | 304100 Structures & Improvements SS   | 7,953         | 14.59% | 1,160        |
| 5        | 304200 Structures & Improvements P  | 79,628        | 3.99%  | 3,177        |
| 6        | 304300 Struct & Imp WT  | 3,038,848     | 2.00%  | 60,777       |
| 7        | 304400 Struct & Imp TD  | 23,864        | 1.50%  | 358          |
| 8        | 304500 Struct & Imp AG  | 20,130        | 4.63%  | 932          |
| 9        | 304700 Struct & Imp Store, Shop, Gar  | 93,285        | 4.63%  | 4,319        |
| 10       | 304800 Struct & Imp Misc  | 149,284       | 4.63%  | 6,912        |
| 11       | 307000 Wells & Springs  | 1,252,663     | 2.48%  | 31,064       |
| 12       | 311200 Pump Equip Electric  | 3,337,081     | 4.39%  | 146,498      |
| 13       | 311300 Pump Equip Diesel  | 59,421        | 4.39%  | 2,609        |
| 14       | 320100 WT Equip Non-Media   | 5,825,149     | 7.06%  | 411,255      |
| 15       | 330000 Dist Reservoirs & Standpipes   | 912,619       | 3.15%  | 28,747       |
| 16       | 331100 TD Mains 4in & Less  | 706,252       | 4.17%  | 29,451       |
| 17       | 331200 TD Mains 6in to 8in  | 4,409,791     | 2.52%  | 111,127      |
| 18       | 331300 TD Mains 10in to 16in  | 8,522,708     | 2.34%  | 199,431      |
| 19       | 333000 Services   | 2,178,857     | 4.72%  | 102,842      |
| 20       | 334100 Meters   | 328,579       | 7.21%  | 23,691       |
| 21       | 334200 Meter Installations  | 103,799       | 1.51%  | 1,567        |
| 22       | 335000 Hydrants   | 988,184       | 2.10%  | 20,752       |
| 23       | 340100 Office Furniture & Equip   | 63,617        | 4.04%  | 2,570        |
| 24       | 340200 Comp & Periph Equip  | 99,216        | 15.89% | 15,765       |
| 25       | 340300 Computer Software  | 164,275       | 37.71% | 61,848       |
| 26       | 340500 Other Office Equipment   | 25,224        | 7.13%  | 1,798        |
| 27       | 341100 Trans Equip Lt Duty Trks   | 14,087        | 28.05% | 3,981        |
| 28       | 341300 Trans Equip Autos  | 19,307        | 7.80%  | 1,506        |
| 29       | 341400 Trans Equip Other  | 13,606        | 0.93%  | 127          |
| 30       | 343000 Tools Shop, Garage Equip   | 83,867        | 3.61%  | 3,028        |
| 31       | 345000 Power Operated Equipment   | 147,066       | 4.64%  | 6,824        |
| 32       | 346100 Comm Equip Non-Telephone   | 290,493       | 9.76%  | 28,352       |
| 33       | 346300 Comm Equip Other   | 81,454        | 7.91%  | 6,443        |
| 34       | Total   | \$ 33,202,558 |        | \$ 1,318,981 |
| 35       | Corporate Allocation (already included in above amounts)                                  |               |        |              |
| 36       | Amortization of Mummy Mountain Acquisition Costs (Per RUCO Income Statement Adjustment 8) |               |        | 5,256        |
| 37       | Less: Amortization of CIAC  |               |        | (525,004)    |
| 38       |   |               |        |              |
| 39       |   |               |        |              |
| 40       | Company Revised Depreciation Expense  |               |        | \$ 799,233   |
| 41       | Company Original Proposed Depreciation Expense  |               |        | \$ 720,578   |
| 42       | Company Adjustment  |               |        | \$ 78,655    |
| 43       |   |               |        |              |
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| LINE NO. | DESCRIPTION                                    | AMOUNT        |
|----------|--|---------------|
| 1        | Adjusted Test Year Revenues                    | \$ 5,079,195  |
| 2        | Weight Factor                                  | 2             |
| 3        | Subtotal (Line 1 x Line 2)                     | 10,158,390    |
| 4        | Company Proposed Revenue                       | 5,607,523     |
| 5        | Subtotal (Line 3 + Line 4)                     | 15,765,913    |
| 6        | Number of Years                                | 3             |
| 7        | Three Year Average (Line 5 / Line 6)           | \$ 5,255,304  |
| 8        | Department of Revenue Multiplier               | 2             |
| 9        | Revenue Base Value (Line 7 x Line 8)           | \$ 10,510,608 |
| 10       | Plus: 10% of CWIP                              | 8,933         |
| 11       | Less: Net Book Value of Licensed Vehicles      | \$ 10,501,676 |
| 12       | Full Cash Value (Line 9 + Line 10 - Line 11)   | 25%           |
| 13       | Assessment Ratio                               | \$ 2,625,419  |
| 14       | Assessment Value (Line 12 x Line 13)           | 8,235,40%     |
| 15       | Composite Property Tax Rate                    | \$ 216,214    |
| 16       | Company Revised Property Tax Expense           | \$ 213,241    |
| 17       | Company Original Proposed Property Tax Expense | \$ 2,973      |
| 18       | Company Rebuttal Adjustment                    |               |
| 19       |  |               |
| 20       |  |               |
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| Line No. | Company Rebuttal Adjusted Test Year                  | Company Revised Proposed    |
|----------|--|-----------------------------|
| 1        | <u>Calculation of Income Taxes at Proposed Rates</u> |                             |
| 2        |  |                             |
| 3        |  |                             |
| 4        | Operating Income Before Inc. Taxes                   | \$ 1,080,461 \$ 1,608,789   |
| 5        | Interest Expense                                     | \$ 520,071 \$ 520,071       |
| 6        | Arizona Taxable Income                               | \$ 560,390 \$ 1,088,718     |
| 7        |  |                             |
| 8        | Less Arizona Income Tax                              | \$ 39,048 \$ 75,862         |
| 9        | Arizona Income Tax Rate =                            |                             |
| 10       |  | 6.968%                      |
| 11       | Federal Income Before Taxes                          | \$ 560,390 \$ 1,088,718     |
| 12       | Less Arizona Income Taxes                            | \$ 39,048 \$ 75,862         |
| 13       | Federal Taxable Income                               | \$ 521,342 \$ 1,012,856     |
| 14       |  |                             |
| 15       | Federal Income Taxes:                                | \$ 177,256 \$ 344,371       |
| 16       |  |                             |
| 17       |  |                             |
| 18       | Total Income Tax                                     | \$ 216,304 \$ 420,233       |
| 19       |  |                             |
| 20       | Tax Rate   | 38.60% 38.60%               |
| 21       |  |                             |
| 22       | Effective Income Tax Rates                           |                             |
| 23       | State  | 6.968% 6.968%               |
| 24       | Federal  | 31.63% 31.63%               |
| 25       | Revenue Conversion Factor                            | 1.6286 1.6286               |
| 26       |  |                             |
| 27       | Original Company Test Year State Income Taxes        | \$ 38,940                   |
| 28       | Revised Company Test Year State Income Taxes         | \$ 39,048                   |
| 29       | Adjustment to State Income Taxes                     | \$ 108                      |
| 30       |  |                             |
| 31       | Original Company Test Year Federal Income Taxes      | \$ 176,765                  |
| 32       | Revised Company Test Year Federal Income Taxes       | \$ 177,256                  |
| 33       | Adjustment to Federal Income Taxes                   | \$ 491.37                   |
| 34       |  |                             |
| 35       | <u>Calculation of Interest Synchronization:</u>      |                             |
| 36       | Rate Base (Schedule JMR-RB1, Col. [B], Line 1)       | \$ 15,166,114 \$ 15,166,114 |
| 37       | Weighted Average Cost of Debt                        | 3.43% 3.43%                 |
| 38       | Synchronized Interest (L36 x L37)                    | \$ 520,071 \$ 520,071       |
| 39       |  |                             |
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# **EXHIBIT JMR-RB1**

Decision No. 59079, Dated May 5, 1995



BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

MAY 5 1995

DOCKETED BY

ES

RENZ D. JENNINGS  
CHAIRMAN  
MARCIA WEEKS  
COMMISSIONER  
CARL J. KUNASEK  
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF )  
PARADISE VALLEY WATER COMPANY, AN )  
ARIZONA CORPORATION, FOR )  
ADJUSTMENTS TO ITS RATES AND )  
CHARGES FOR UTILITY SERVICE. )

DOCKET NO. U-1303-94-182

DECISION NO. 59079

OPINION AND ORDER

PRE-HEARING:

January 19, 1995

DATES OF HEARING:

January 23, 24, and 25, 1995

PLACE OF HEARING:

Phoenix, Arizona

PRESIDING OFFICER:

Jerry L. Rudibaugh

IN ATTENDANCE:

Renz D. Jennings, Chairman  
Marcia Weeks, Commissioner

APPEARANCES:

RYLEY, CARLOCK & APPLEWHITE, by Mr.  
Norman D. James, on behalf of Paradise Valley Water  
Company;

FENNEMORE CRAIG, P.C., by Mr. C. Webb  
Crockett, on behalf of Paradise Valley Country Club;

Ms. Elaine A. Williams, Attorney, on behalf of the  
Residential Utility Consumer Office; and

Mr. Paul A. Bullis, Chief Counsel, and Ms. Karen E.  
Nally, Staff Attorney, Legal Division, on behalf of the  
Utilities Division of the Arizona Corporation  
Commission.

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**BY THE COMMISSION:**

On April 29, 1994, Paradise Valley Water Company ("Applicant" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting a hearing to determine the "fair value" of its property for ratemaking purposes, to fix a just and reasonable rate of return, and thereafter to approve rate schedules designed to produce said return. On May 31, 1994, the Commission's Utilities Division Staff ("Staff") filed a notice in this docket that the application met the sufficiency requirements of A.A.C. R14-2-103 and that the Company has been classified as a Class B utility.

On June 15, 1994, the Residential Utility Consumer Office ("RUCO") requested intervention which was granted on June 27, 1994. On September 21, 1994, the Paradise Valley Country Club ("Country Club") requested intervention which was granted on October 18, 1994.

This matter came before a duly authorized Hearing Officer of the Commission at the Commission's offices in Phoenix, Arizona on January 23, 1995. Applicant, the Country Club, RUCO and Staff appeared through counsel. Evidence was presented and, after a full public hearing, this matter was adjourned pending submission of a Recommended Opinion and Order by the Presiding Officer to the Commission.

**I. INTRODUCTION**

Applicant provides water service within portions of the Town of Paradise Valley, the City of Scottsdale, and certain unincorporated areas within Maricopa County, Arizona. All of the Company's certificated area is located within the Phoenix Active Management Area. During the test year ("TY") ended December 31, 1993, the Company provided water service to approximately 4,300 customers. The majority of Applicant's customers are residential customers, many of whom own large dwellings situated on large lots with extensive landscaping and improvements. Applicant serves the Country Club and two other turf-related facilities, several large resorts, and other commercial customers who require relatively large quantities of water. Applicant also sells water for resale to Mummy Mountain Water Company, another certificated utility. The Company requested an increase in revenues of \$508,323 or approximately 20 percent. Staff recommended a gross revenue increase of \$278,432 or 11.02 percent. RUCO recommended a gross revenue increase of \$23,698 or less than one percent.

**II. RATE BASE**

The Company proposed an original cost rate base ("OCRB") of \$3,792,726. This was a substantial increase over the \$2,251,947 OCRB as determined in Decision No. 58419, dated September 30, 1993. The majority of the increase in OCRB occurred because of the addition of Well No. 17 into service subsequent to the issuance of Decision No. 58419. Both Staff and RUCO recommended several adjustments to the Company's proposed OCRB. Staff and RUCO's recommended OCRB were \$3,674,960, and \$3,410,779, respectively.

**A. Post-In-Service AFUDC**

RUCO, Staff and the Company were in agreement that the accounting standards promulgated by the National Association of Regulatory Utility Commissioners ("NARUC") normally require allowance for funds used during construction ("AFUDC") to cease once the plant is completed and placed in service. In this case, the Company has requested to extend the AFUDC allowance to include the period from its "in service" date of Well No. 17 through May 1995 to compensate the Company for the perceived effects of "regulatory lag".

Staff and RUCO both opposed the Company's post-in-service AFUDC. Staff was critical of the Company for not requesting prior approval to continue to record post-in-service AFUDC. Further, Staff was of the opinion that NARUC Accounting Instruction No. 19, subpart 17, requires that "AFUDC shall cease" when a project is placed in operation or is ready for service. RUCO asserted that the Company's alleged regulatory lag works in both directions in that there is also plant included in rate base earning a return on a certain amount even though that amount will be depreciated each year. As an example, RUCO indicated that in 1992 the Company added plant-in-service in the amount of \$133,000 while depreciation accruals totaled \$148,000. In response to the Company's citations of cases in other state jurisdictions which permitted post-in-service AFUDC, RUCO asserted those cases dealt primarily with billion dollar nuclear projects which often take years to build. According to RUCO, the Company's construction of Well No. 17 did not result in "dire financial" problems comparable to construction of a nuclear plant.

We concur that the general rule is to cease accruing AFUDC when the plant is placed in service. Further, we believe that RUCO's "two-sided effects" argument provides an insight as to why

1 it is normally fair to cease accruing AFUDC. In this case however, we are presented with the issue  
2 as to whether or not the relative size of the Company's investment in Well No. 17 would merit  
3 departure from normal accounting treatment. We believe such departure is justified under the  
4 circumstances of this case: the investment in question is approximately 40 percent of the Company's  
5 previous investment in its entire system; the in-service date occurred shortly after the Company's  
6 previous rate case decision; and the Company has done an excellent job of keeping its interest costs  
7 at a reasonable level.<sup>1</sup> As a result of the above, we will approve the Company's post-in-service-  
8 AFUDC in the amount of \$40,498. We note that Staff had an additional disallowance for AFUDC  
9 in the amount of \$12,523 which the Company did not oppose.

10 B. Plant Held for Future Use

11 The Company included a back-up pump in its OCRB in the amount of \$7,544.38. RUCO  
12 recommended removal of this amount since it was property that was being held for future use and was  
13 not currently being used in the provision of water service.

14 In response, the Company indicated that the pump on Well No. 15 had become inoperable and  
15 a new pump was installed. Subsequently, the Company had the old pump rebuilt to be used in the  
16 case of another pump failure. According to the Company, it can take up to three weeks to rebuild  
17 or purchase a new pump. Consequently, the Company was of the opinion that maintaining a spare  
18 pump was a benefit to its customers.

19 RUCO disagreed with the Company's response. RUCO indicated that if the Company's  
20 rationale was accepted, the Company could replicate its entire plant to be held as stock in case of an  
21 emergency.

22 Although the rebuilt pump is not currently being used, we do find it useful and prudent to  
23 maintain it as a backup pump. Accordingly, we must deny RUCO's recommended removal of  
24 \$7,544.38 from OCRB.

25 C. Materials and Supplies Inventory

26 The Company had included the end of the TY amount of \$28,293 as representative of its on-  
27

28 <sup>1</sup> The Company has requested post-in-service AFUDC based on a short-term borrowing  
rate of 4.32 percent.

1 going materials and supplies inventory. Because that amount was significantly above the two previous  
2 year ending levels, Staff reduced the inventory level by \$6,216 to reflect the average balance over the  
3 last three years. According to Staff, it is more appropriate to use an average value to reflect a  
4 normalized level for a fluctuating inventory amount rather than an end of TY amount which may not  
5 be reflective of the average inventory level.

6 In response, the Company indicated that the inventory level has increased as a result of  
7 changed procedures by the Company. According to the Company, it has determined that its parent  
8 company, American Water Works Company ("AWWC"), can purchase materials and supplies on a  
9 national contract at a significant savings over purchasing materials from a local vendor on an  
10 emergency basis. As a result, the Company had to increase its inventory level. The Company  
11 provided a copy of its response to Staff data request JLF-109 as an exhibit to the rebuttal testimony  
12 of Mr. David Stephenson apparently to demonstrate the savings resulting from a national purchasing  
13 contract.

14 We concur with Staff. In this case, we find an average inventory level is more representative  
15 of the on-going level rather than the high end of TY level. Although the Company has put forward  
16 a reasonable argument for increasing its on-going inventory level, we are unable to conclude from the  
17 JLF-109 data response that there are demonstrative savings resulting from a national purchasing  
18 contract.

19 D. Construction Work-In-Progress

20 Staff recommended the Company's proposed rate base be adjusted by \$24,175 for removal of  
21 construction work-in-progress ("CWIP"). According to Staff, this amount was already included in the  
22 Company's pro forma adjustments to rate base.

23 In response, the Company indicated that Staff had only allowed \$60,933 for construction costs  
24 for the Miller Road Booster Station Project. The Company acknowledged that the \$60,933 amount  
25 was provided to Staff by the Company. According to the Company, the \$60,933 amount was only  
26 for the 1992 period and did not include \$24,175 of construction costs from 1993. Consequently, the  
27 Company asserted that Staff's proposed \$24,175 adjustment was not proper.

28 Staff subsequently agreed with the Company's position. We concur.

1 E. Chlorinator Parts

2 The Company included \$3,161 in TY expenses for the rebuilding of four chlorinator units.  
3 According to Staff, the rebuilding of these units would increase the life of the units by three to five  
4 years. Staff was of the opinion that this would constitute a plant betterment as defined in the NARUC  
5 Uniform System of Accounts. As a result, Staff recommended disallowing the expense amount of  
6 \$3,161 and increasing rate base by \$6,812.<sup>2</sup>

7 In response, the Company agreed that repairing the chlorinator facilities will extend the life  
8 of the plant. However, the Company indicated that the replacement of the parts is an anticipated  
9 maintenance item in order for the original expected life of the chlorinator facilities to be reached. The  
10 items that were repaired or replaced were clamp rings, o-rings, valve bodick, springs, valve seats,  
11 filters, valve heads, spare parts, yokes and switchover modules. Since these are clearly not retirement  
12 units, the Company asserted they should not be capitalized.

13 We concur with the Company. While it appears these items could be either expensed or  
14 capitalized, we find that the Company's approach is reasonable and should be approved.

15 F. Meter Boxes

16 The Company included \$1,066 in TY expenses for work on 15 meter boxes. According to  
17 Staff, the meter boxes represent a retirement unit and should be capitalized since they benefit more  
18 than the current year. Staff recommended disallowance of the expense amount of \$1,066 and  
19 increasing rate base by \$4,806.<sup>3</sup>

20 In response, the Company asserted the meter boxes were not a retirement unit. According to  
21 the Company, the cost of these items is very minor while the amount of paperwork to retire and  
22 capitalize every meter box would be substantial.

23 We concur with the Company. Based on the average cost of \$71.07 per meter box repaired,  
24 these appear to be minor repairs which were appropriately expensed.

25  
26 <sup>2</sup> The difference in Staff's capital adjustment and expense adjustment resulted from  
27 Staff's sampling method as subsequently discussed.

28 <sup>3</sup> The difference in Staff's capital adjustment and expense adjustment resulted from  
Staff's sampling method as subsequently discussed.



1 G. Miscellaneous Adjustments

2 The following are adjustments which RUCO or Staff proposed and the Company subsequently  
3 concurred with:

| 4  | <u>Adjustment</u>  | <u>Amount</u>           |
|----|--|-------------------------|
| 5  | 1. Staff adjustment to accumulated depreciation  | (\$51,129) <sup>4</sup> |
| 6  | 2. RUCO adjustment for retired meters  | 0 <sup>5</sup>          |
| 7  | 3. Staff and RUCO adjustments to Cash Working Capital  |                         |
| 8  | A. Accrued Vacation Pay  | (\$17,400)              |
| 9  | B. Prepaid CAP Costs   | (\$30,695)              |
| 10 | C. Deferred CAP Expenses   | (\$29,260)              |
| 11 | 4. Staff and RUCO adjustments for a double count for<br>costs for a Comprehensive Planning Study ("CPS") | (\$ 7,448)              |

11 H. Working Capital

12 The Company performed a lead/lag study of its cash working capital requirements. That study  
13 showed a requirement of \$6,100, which the Company included as a component of the working capital  
14 portion of rate base. Staff and RUCO recommended downward adjustments to the Company's  
15 proposed cash working capital in the amount of \$38,200 and \$42,623, respectively.

16 The primary adjustment made by Staff and RUCO were removal of "non-cash" items such as  
17 depreciation expenses and deferred income taxes from the calculation. RUCO removed rate case  
18 expense amortization from the lead/lag study. RUCO also determined that the Company had  
19 inadvertently failed to include TY pension expenses in the expense lag calculation for which RUCO  
20 made an adjustment using a 45-day lag period.

21 In response, the Company was critical of the proposed adjustments for the "non-cash" items  
22 as well as the rate case expense amortizations. According to the Company, the appropriateness of  
23 these adjustments are based on "opinions and not requirements or hard and fast rules". Further, the  
24 Company asserted that the Company rate base will be understated unless the depreciation accrual and  
25

26 <sup>4</sup> A reduction in accumulated depreciation will result in a corresponding increase to  
27 OCRB.

28 <sup>5</sup> The adjustment to plant-in-service is offset by a corresponding adjustment to  
accumulated depreciation.

1 rate case expense amortization are accounted for in the cash working capital calculation. Although  
 2 the Company concurred with RUCO's inclusion of TY pension expenses, the Company indicated the  
 3 appropriate lag day should have been zero, not 45 days as used by RUCO. The Company also  
 4 acknowledged that it had originally provided RUCO with the erroneous 45 day information.

5 As we have stated in numerous other decisions, the calculation is for "cash working capital"  
 6 and not "cash and non-cash working capital". Similarly, the Commission recently indicated in  
 7 Decision No. 58360, dated July 23, 1993, that it was appropriate to remove rate case expenditures  
 8 from the cash working capital requirement. Based on all the above, we will approve RUCO's  
 9 proposed adjustment, as corrected, using a zero lag period for the pension expenses. The resulting  
 10 adjustment would be a decrease in cash working capital of \$40,228.

11 I. Monthly Compounding of AFUDC

12 RUCO was critical of the Company for compounding AFUDC on a monthly basis. According  
 13 to RUCO, such compounding artificially inflates the Company's construction expenditures and  
 14 corresponding rate base. This problem was recognized by the Federal Power Commission in Order  
 15 No. 561 in which it prohibited monthly compounding of AFUDC:

16 We agree that the compounding of AFUDC is proper in theory and  
 17 necessary as a matter of sound cost determination; however, we believe  
 18 that a monthly compounding of AFUDC as suggested by some  
 19 respondents may result in excessive amounts capitalized since cash  
 outlays for interest and dividends are not normally made on a monthly  
 basis. We therefore permit compounding but no more frequently than  
 semiannually.

20 In addition, RUCO noted that the Commission has previously accepted Order No. 561 in Consolidated  
 21 Water Company, Decision No. 58260, dated April 23, 1992.

22 The Company acknowledged it does not pay dividend payments on a monthly basis, but it does  
 23 pay interest expense monthly. Further, the Company asserted that funds for construction are supplied  
 24 by internally generated funds and retained earnings. When those sources are not available, the  
 25 Company must use new debt. Since it must pay interest costs on a monthly basis on total debt, the  
 26 Company opined that the avoided cost method would require monthly compounding. The Company  
 27 also noted that Order No. 561 applies to federally regulated gas utilities and not medium-sized  
 28 Arizona water utilities.

1 We concur with RUCO that compounding of interest can artificially inflate rate base especially  
2 if done on a monthly basis. Further, consistent with Decision No. 58260, if any compounding of  
3 interest is to be allowed it should not be more frequent than semi-annually. Accordingly, we will  
4 order the Company to modify its AFUDC accrual methodology and compound no more frequently  
5 than semi-annually.

6 J. Payment-in-Lieu-of-Revenues

7 The Commission in Decision Nos. 58221, dated March 24, 1993, and 58423, dated October  
8 14, 1993, granted the Company's request to approve agreements entered into with developers for the  
9 Monterey Homes and Lincoln Estates subdivisions, respectively. Each of the agreements contained  
10 the following provisions:

- 11 A) The developers will construct the distribution facilities necessary to service the homes  
12 they will build;  
13 B) Upon completion of the distribution facilities, the developers will transfer ownership  
14 of the facilities to the Company in exchange for a loan to the Company in the amount  
15 of the total construction cost; and  
16 C) The developers agreed to make payments to the Company for each lot which does not  
17 have permanent water service in order to compensate the Company for the cost of  
18 owning, operating, and maintaining the facilities within the development that are not  
19 serving customers. These payments are referred to as payments-in-lieu-of-revenues  
20 ("PILORS").

21 RUCO was critical of the manner in which the Company treated PILORS for rate-making  
22 purposes. In particular, RUCO criticized the Company for including the cost of the line extensions  
23 in rate base and for including depreciation expenses on 100 percent of the line extension costs. Since  
24 the PILORS offset the debt payments that the Company makes to the developer(s) for each  
25 unoccupied lot, RUCO was of the opinion the PILORS are nothing more than another name for  
26 advances-in-aid-of-construction ("advances"). As a result, RUCO recommended several adjustments  
27 to the Company's proposed ratemaking treatment including the following:

- 28 A) Removal of the debt associated with the line extensions from the capital structure;  
B) Remove any unrefunded advance from rate base; and  
C) Remove the depreciation expense on the net advance amount from operating expenses.

Based on the above, RUCO recommended a reduction in rate base in the amount of \$185,705.

In response, the Company asserted the PILOR arrangements are clearly not the same as advances. Unlike an advance, PILORS involve an actual loan which must be repaid. If the Company had utilized advances, this would have constituted taxable income to the utility at a "gross-up" rate of approximately 70 percent. In addition, the Company asserted that even if these were advances, depreciation expense would still be allowed.

We share some of RUCO's concerns regarding the PILOR financing arrangements. However, we find that because of the gross-up of taxes on advances and contributions, that a PILOR arrangement is a reasonable alternative to minimize the risk and costs to the Company and its ratepayers. We do find there is a legitimate loan arrangement and as a result the Company does have an investment in the cost of the line extension. It is also important to note that the two developments in question are building out quickly. In fact, the Company indicated that the Monterey Homes subdivision was almost entirely built-out. As a result, we do not find any shift of risk from the developers to the ratepayers. There may be different scenarios in which the development is a failure whereby RUCO's recommended rate-making approach would be appropriate in order to not shift the cost of the failed development to ratepayers. As a result, we want to make it clear that we will analyze each PILOR arrangement on a case by case basis for the proper rate-making treatment. Based on all the above, we will approve the Company's rate-making treatment of the PILOR arrangements for the Monterey Homes and Lincoln Estates subdivisions.

**K. Original Cost Rate Base Summary**

Based on the foregoing, the following statement details the adjusted TY OCRB for ratemaking purposes for Applicant:

|   |             |
|---|-------------|
| <u>Applicants Proposed Adjusted Rate Base</u> | \$3,792,726 |
| <u>Commission Approved Adjustments</u>        |             |
| AFUDC   | (\$ 12,523) |
| Materials and Supplies                        | (\$ 6,216)  |
| Miscellaneous                                 | (\$ 33,674) |
| Working Capital                               | (\$ 40,228) |
| PBOPs*  | (\$ 5,804)  |
| <u>Commission Adjusted Rate Base</u>          | \$3,694,281 |

\* See subsequent PBOPs discussion involving operating expenses.

### III. RECONSTRUCTION COST NEW RATE BASE

In Schedule B-1 of Applicant's Exhibit No. 1, Applicant presents a jurisdictional reconstruction cost new rate base ("RCNRB") of \$8,496,549. All of the adjustments reflected in our determination of the OCRB are equally applicable to the RCNRB. No change in these adjustments is necessary to restate them in terms of reconstruction cost new. Thus, the RCNRB is \$8,398,104.

### IV. FAIR VALUE RATE BASE

The Commission has traditionally determined the "fair value" rate base ("FVRB") by taking the average of OCRB and RCNRB. No party has suggested that a different weighing be used in this proceeding. Consequently, we find that the adjusted FVRB for the Company is \$6,046,193.

### V. OPERATING INCOME

#### A. Revenue Annualizations

Applicant had actual revenues during the TY of \$2,361,680. The Company adjusted that amount upward by \$168,677. The majority of the revenue adjustment was to normalize revenues to reflect new rates effective October 1, 1993.

The Company began to serve customers in the Monterey Homes and Lincoln Estates subdivisions during the TY. The Monterey and Lincoln subdivisions consisted of 113 and 15 lots, respectively. During the TY, 57 of the lots in the Monterey subdivision had homes which became occupied and 3 of the lots in the Lincoln subdivision had homes which became occupied. The Company removed the consumption for the occupied homes from TY consumption. In addition, the Company adjusted TY revenues to include PILOR revenues as if all 128 of the Monterey and Lincoln lots were unoccupied. The Company also included an adjustment to annualize the number of customers to TY-end levels. This adjustment was based on an annualized level of TY-end bill counts.

Staff included the consumption for the Monterey and Lincoln subdivisions in TY revenues. In addition, Staff recomputed the PILOR revenues to include only those lots which did not have occupied homes as of the end of the TY. The net result of Staff's adjustments was to decrease the Company's proposed TY revenues by \$4,734.

RUCO made an adjustment similar to Staff's related to the consumption of the Monterey and Lincoln customers. In addition, RUCO reversed a Company adjustment for water consumption by

1 Monterey Management, Inc. ("Developer"). During the TY, the Developer utilized water for  
2 construction, model homes, and for common landscape areas, community pool, and recreation  
3 facilities. The Company removed the Developer's consumption from TY revenues. In fact, of the  
4 372 bills the Company removed from the TY bill count, 332 were Developer bills. RUCO argued  
5 that even after completion of all construction, there will still be water consumption for the common  
6 landscape areas, community pool, and recreational facilities. As to the other water consumption by  
7 the Developer, RUCO asserted that permanent customers would replace the consumption of the  
8 Developer.

9 While RUCO agreed that such an adjustment was necessary to annualize the customers to TY-  
10 end levels, RUCO criticized the Company for not including an adjustment for water consumption.  
11 RUCO computed the TY-end number of customers for each customer class and meter size and  
12 multiplied the difference in the number of customers from the TY average number by the average  
13 consumption for each customer class and meter size.

14 In response, the Company asserted that RUCO's proposed revenue adjustments were flawed  
15 and misleading. RUCO has assumed that the customers in the Monterey and Lincoln developments  
16 were consuming at the same level as the average of all of Applicant's 1-inch meter class of residential  
17 customers. The Company indicated it provided in response to RUCO data request 1.37, the actual  
18 consumption for the first six months of 1994 for the Monterey and Lincoln customers. The actual  
19 consumption was 8,800 gallons of water per month which paled in comparison to RUCO's assumed  
20 amount of 53,000 gallons per month.

21 RUCO did not dispute that some of the customers in the Monterey and Lincoln subdivisions  
22 used less than the average for residential 1-inch meters. On the other hand, RUCO pointed out that  
23 the Company has disregarded a Monterey customer whose average TY usage was in excess of 400,000  
24 gallons a month. Lastly, RUCO asserted that if the Company believes the customers of the new  
25 subdivisions will consume far less than the average for other 1-inch meters, the Company should not  
26 have installed 1-inch meters in the subdivisions.

27 Finally, the Company emphasized that RUCO's revenue adjustment was not known and  
28 measurable, and that RUCO did not adjust expenses (other than purchased power) to correspond to

1 its revenue adjustment. According to the Company, other expenses which would increase are postage,  
2 data processing costs, bill forms, and lock box fees.

3 We concur with RUCO that it would be appropriate that the TY revenues be annualized to  
4 reflect the Company's end-of-year customer level, including water consumption. While the Company  
5 may be correct that the usage by the customers in the Monterey Homes and Lincoln Estates may be  
6 less than the system wide average, we find that RUCO's methodology is reasonable under the  
7 circumstances. We also must concur with RUCO's observation that if these customers are not  
8 expected to use anywhere near the average use of other 1-inch meter customers, perhaps they should  
9 be served with 5/8-inch meters at a lower cost. Further, we concur with RUCO's inclusion of the  
10 water consumption by the Developer for the reasons set forth by RUCO. Although we concur with  
11 the Company that expenses should also have been annualized for the increased consumption, we note  
12 this issue was not raised by the Company until after RUCO had filed its surrebuttal testimony. Even  
13 with that, we would have adopted an expense annualization if one had been provided by the Company  
14 in its rejoinder testimony. Based on all the above, we will approve RUCO's proposed revenue  
15 adjustment in the amount of \$88,933.

16 B. Annual Operating Expenses

17 Applicant had actual operating expenses for the TY of \$2,180,301. The Company proposed  
18 pro forma adjustments of \$347,344 for TY adjusted expenses of \$2,527,645. Staff proposed  
19 adjustments which resulted in TY adjusted expenses of \$2,366,513. RUCO proposed adjustments  
20 which resulted in TY adjusted expenses of \$2,356,068.

21 1. Post-Retirement Benefits Other Than Pensions

22 The Company requested a change in the accounting treatment of post-retirement benefits other  
23 than pensions ("PBOPs") from the cash method to the accrual method. According to the Company,  
24 it was required to adopt the accrual method of accounting for financial reporting purposes pursuant  
25 to the Statement of Financial Accounting Standards No. 106 ("FAS No. 106"), which became effective  
26 for the Company as of January 1, 1993. The Company had also requested approval of the FAS No.  
27 106 accrual expenses in its previous rate case. That request was denied in Decision No. 58419. The  
28 Company's request at that time was criticized because: the Company did not have final approval to

1 fund accrual treatment of PBOPs; the assumptions required to be made to determine the proper level  
2 of accrual rendered the accrual method not known and measurable; and the amortization of the  
3 transition obligation presented retroactive ratemaking problems and may not have alleviated  
4 intergenerational inequities.

5 Subsequent to Decision No. 58419, the Company entered into a trust agreement under which  
6 it is obligated to fully fund the FAS No. 106 expense. As a result, the Company indicated the  
7 conditions have changed since its last rate case.

8 Staff and RUCO both opposed the Company's request to switch to the accrual method for  
9 PBOPs. Each cited previous decisions in which the Commission has denied recovery of the FAS No.  
10 106 costs. Although the Company has begun to fund the FAS No. 106 expense, Staff and RUCO  
11 indicated the remaining problems such as retroactive ratemaking, intergenerational inequities, and the  
12 fact that the liability for future obligations to make PBOP payments is not known and measurable,  
13 still exist.

14 According to Staff, the cash method for PBOPs would be the actual costs "paid-out" to current  
15 retirees of the Company. The Company indicated its parent company did not currently compile the  
16 actual costs for retiree benefits by operating company. As a result, the Company utilized an allocated  
17 amount that is paid into the irrevocable trust fund as the cash amount for PBOPs. In a response to  
18 a data request, the Company computed that amount to be \$32,872. Based on the information  
19 available, Staff concluded that amount was reasonable and recommended approval of \$32,872 as the  
20 cash amount for PBOPs for the TY. Consistent with that recommendation, Staff recommended  
21 disallowance of the difference between the \$91,488 accrual amount and the \$32,872 cash amount or  
22 \$58,617<sup>7</sup>.

23 RUCO computed the costs to ratepayers over the next twenty-one years of the cash method  
24 versus the accrual method and determined that the accumulated costs of the cash method was less by  
25 over \$800,000. Furthermore, RUCO calculated it would take 40 years before the cumulative present  
26 value of the cash payments would be greater than the accrual present value. As a result of the above  
27

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28 <sup>7</sup> The Company had included \$52,313 in expenses and capitalized \$5,804 in rate base.



1 calculations as well as the previous reasons listed. RUCO recommended the Commission continue to  
2 set rates based on the cash method for PBOPs. RUCO recommended removal of \$52,813 from  
3 operating expenses and \$5,804 from rate base for the Company's FAS No. 106 accrual costs.

4 In response, the Company reiterated its position regarding the accrual method for PBOPs. In  
5 addition, the Company argued that Staff had not even allowed enough expenses for the cash method.  
6 Although Staff indicated they had allowed \$32,872 of expenses for the cash method, the Company  
7 asserted that Staff had actually allowed \$13,842 as part of the group insurance costs. According to  
8 the Company, it had paid a net total of \$17,105.45 for retirees based on insurance premiums during  
9 the TY. Further, the Company estimated the actual costs for the cash method for fiscal 1993-1994  
10 was \$31,537. As a result, the Company indicated the minimum expense amount that should be  
11 allowed under a cash approach is \$49,094<sup>9</sup>.

12 RUCO indicated that the Company's requested \$31,537 and \$17,557 amounts do not represent  
13 cash outlays by the Company. The \$31,573 amount is an estimated amount that AWWC paid out  
14 of its trust fund during the 1993-1994 fiscal year to cover retirees' claims while the \$17,557 amount  
15 represents the amount of future post retirement benefits that current employees are deemed to have  
16 earned in the current period.

17 We acknowledge that this Company, unlike most others who have come before the  
18 Commission on the PBOP issue, does have a trust fund set up which is earning a return. We consider  
19 this a positive difference from previous cases regarding the possible adoption of accrual accounting  
20 for PBOPs. However, we are still not convinced that a change from the cash method to an accrual  
21 method which includes past and current costs is appropriate at this time. We are making this decision  
22 based upon an overall comparison of the cash method versus an accrual method which includes  
23 amortization of unpaid obligations ("Transition Costs"). We share some of the Company's concerns  
24 regarding intergenerational inequities. Ideally, each generation of customers will pay the PBOP costs  
25 that directly benefit them and not pay those costs which directly benefit other generations of  
26 customers. The existence of the Transition Costs demonstrates that the cash method does not meet  
27

28 <sup>9</sup> This amount includes \$17,557 for the portion of PBOP related to current employees.

1 the ideal situation of matching costs and benefits. A change to the accrual method without  
2 consideration of the Transition Costs could provide a better match of costs and benefits. However,  
3 the Company has not indicated a willingness to switch to a straight accrual method without Transition  
4 Costs. Based on the above, we will not recognize for ratemaking purposes the effect of the  
5 accounting change proposed by the Company for post-retirement benefits.

6 That leads us to the next issue which is the appropriate amount to allow for TY expenses for  
7 the cash method. Although the Commission has dealt with the PBOP issue numerous times, this is  
8 the first time there has been disagreement as to the amount of the cash method. This disagreement  
9 is the direct result of the Company's confusing presentation of PBOP costs, group insurance costs,  
10 and various estimated costs. With that all said, we have found that the correct TY amount is the  
11 retirees net group insurance amount of \$17,105.45. Furthermore, we will amend the group insurance  
12 costs to reflect this amount. At the same time, we will remove \$52,813 from operating expenses and  
13 \$5,804 from rate base for the Company's FAS No. 106 accrual costs.

14 2. Group Insurance

15 The Company proposed an upward adjustment to TY group insurance expense of \$22,082.  
16 This adjustment was made to reflect the Company's fully staffed level of thirteen employees and to  
17 include an estimated inflation factor of eight percent for projected costs at the end of 1994. Staff  
18 supported the increase to reflect an employee level of thirteen but opposed the increase to reflect an  
19 eight percent inflation factor. Staff determined that medical insurance premiums were increased by  
20 an inflation factor of four percent in July 1994. Staff proposed a downward adjustment of \$2,040  
21 from the Company's adjustment to reflect an actual four percent inflation rate in lieu of the estimated  
22 eight percent rate. Staff included \$13,748 for insurance expenses related to the cash method for  
23 PBOPs.

24 RUCO recommended a decrease in the Company's proposed group insurance expenses in the  
25 amount of \$13,903. The primary adjustments made by RUCO were attributable to the use of twelve  
26 employees since that was the number during the TY, and for the use of a zero inflation factor. RUCO  
27 also included \$11,770 in group insurance expense as the net cost of insuring the current level of  
28 retirees.

We generally concur with Staff's proposed adjustment. However, it is our understanding that the actual net costs for retirees based on insurance premiums was \$17,105 during the TY. As a result we will increase Staff's adjustment by \$17,105 - \$13,748 or \$3,357. The net adjustment would be an increase to the Company's group insurance expenses in the amount of \$3,357 - \$2,040 or \$1,317.

### 3. Sampling Methodology

Staff examined the Company's TY expenses by testing a sample of 264 expense items. Of those items reviewed, Staff disputed 21 items totaling \$12,266.70. Based on its sampling methodology, Staff recommended a disallowance of \$78,829.42. Pursuant to Staff's methodology, it was determined that each disallowance had a representative value of \$6,812. This value was determined by taking the total population of \$1,798,354 and dividing by the number of sample items of 264. If Staff reviewed an invoice and disputed the total amount, they recommended a disallowance of \$6,812 no matter what was the actual amount on the invoice. If only a portion of the invoice was disputed, then the corresponding ratio of Staff's representative sample amount was recommended for disallowance. The actual amounts disputed and the recommended disallowances are as follows:

| <u>Description</u>                | <u>Actual Amount</u> | <u>Staff's Disallowance</u> |
|-----------------------------------|----------------------|-----------------------------|
| 1. U S West Late Charges          | \$ 18.18             | \$ 100.62                   |
| 2. Chlorinator Parts - Capitalize | \$ 3,160.89          | \$ 6,812.00                 |
| 3. Meter Boxes-Capitalize         | \$ 752.24            | \$ 4,805.87                 |
| 4. Safety Magazine                | \$ 25.00             | \$ 6,812.00                 |
| 5. Prior Rate Case Expense        | \$ 118.00            | \$ 109.08                   |
| 6. CAP Legal Fees                 | \$ 490.00            | \$ 648.46                   |
| 7. CAP Legal Fees                 | \$ 394.57            | \$ 1,955.50                 |
| 8. CAP Legal Fees                 | \$ 500.00            | \$ 1,573.20                 |
| 9. CAP Legal Fees                 | \$ 375.00            | \$ 877.43                   |
| 10. CAP Legal Fees                | \$ 469.56            | \$ 1,697.07                 |
| 11. CAP Legal Fees                | \$ 2,150.20          | \$ 4,161.80                 |
| 12. CAP Legal Fees                | \$ 340.90            | \$ 2,064.00                 |
| 13. CAP Legal Fees                | \$ 1,172.25          | \$ 1,441.36                 |
| 14. Director/Fiduciary Insurance  | \$ 32.00             | \$ 1,493.04                 |
| 15. Safety Incentive Program      | \$ 135.00            | \$ 6,812.00                 |
| 16. Safety Luncheon               | \$ 549.91            | \$ 6,812.00                 |
| 17. Out of Period Tuition         | \$ 101.00            | \$ 6,812.00                 |
| 18. Out of Period Tuition         | \$ 139.00            | \$ 6,812.00                 |
| 19. Lobbying Legal Fees           | \$ 928.00            | \$ 6,812.00                 |
| 20. Chamber of Commerce           | \$ 290.00            | \$ 6,812.00                 |
| 21. Board of Director's Fees      | \$ 125.00            | \$ 3,406.00                 |
| Total                             | \$12,266.70          | \$78,829.43                 |

1 The Company criticized Staff's sampling interval as not being rational. The Company asserted  
2 that Staff has erroneously assumed that all TY expenses have similar characteristics and probability  
3 of errors. In addition, the sample interval was developed using the adjusted population instead of the  
4 total dollar amount of sample items. According to the Company, it would have been more appropriate  
5 to determine the percentage of disallowance from the sample items and relate that ratio to the entire  
6 population.

7 As to the actual amounts disputed by Staff, the Company only challenged the chlorinator  
8 expenses, meter box expenses, and the Board of Director ("BOD") fees. The Company indicated the  
9 BOD fees were increased from \$125 to \$250 per meeting, per outside director, as of July 1, 1993.  
10 According to the Company, this was a recurring, known and measurable change and should be  
11 accepted.

12 As previously discussed, we concur with the Company regarding the chlorinator expenses and  
13 meter box expenses. We also concur with the Company's inclusion of the BOD fees of \$250 per  
14 meeting as being known and measurable. The aforementioned adjustments reduce the actual amount  
15 disputed to \$8,228.57. As to the overall disallowance, we concur with the Company that Staff has  
16 not demonstrated all TY expenses have similar characteristics and probability of error. Accordingly,  
17 we will reject the representative value utilized by Staff. Although it would normally be appropriate  
18 to apply the percentage of error from the sample to the total population, we will not do so in this  
19 case. Since RUCO has also recommended disallowances, an application to the total population can  
20 result in a duplicate disallowance.

4. Miscellaneous Adjustments

Staff made several adjustments which were subsequently supported by the Company. As a result, we will approve those adjustments as listed below:

| <u>Adjustment</u>   | <u>Amount</u> |
|---|---------------|
| Arizona Department of Water Resources<br>Groundwater Fee  | \$ 55         |
| Arizona Department of Environmental Quality<br>Phase II and Phase V Water Treatment and Testing | \$ 800        |
| Removal of Temporary Help   | (\$ 2,405)    |
| Removal of Main Repair outside of TY  | (\$26,000)    |
| Update Lobbying Percentage for National<br>Association of Water Companies                       | (\$ 427)      |
| Total   | (\$27,977)    |

5. Rate Case Expenses

The Company had TY rate case expenses based on the two previous rate case Decision Nos. 57834 and 58419 of \$39,570. The Company has requested an additional \$70,000<sup>9</sup> of forecasted rate case expense for this case amortized over two years or \$35,000 per year. In addition, the Company requested the balances for the previous rate case expenses be re-amortized over two years at an annual rate of \$26,000. As a result, the Company proposed a pro forma adjustment to rate case expense in the amount of  $[\$35,000 + \$26,000 - \$39,570]$  or \$21,430 for a total annual rate case expense of \$61,000.

Staff generally agreed with the Company's proposal for re-amortizing the previously approved rate case expense. However, Staff recommended using the balance as of May 1995 of \$35,560 which would result in an annual amortization of \$17,780 instead of the Company's proposed \$26,000. In addition, Staff criticized the Company's current rate case expenses as being excessive for a utility with less than 5,000 customers. In comparison to other utilities of similar size, Staff determined that the Company's rate case expenses were much higher. For example, the rate case expense for the most recent Pima Utility Company, Inc. ("Pima") case was \$10,000. Pima has over 5,000 customers and is both a water and sewer company. Another similar size company, the Consolidated Water Utilities, Ltd., was authorized \$21,000 for a recent rate case. Staff also indicated that the Sun City Water

<sup>9</sup> The Company subsequently increased its forecast to \$76,300.

1 Company was authorized \$23,000 for a recent rate case with over 20,000 customers.

2 Staff determined that \$32,000 of the Company's \$70,000 of rate case expense was for legal  
3 fees. Staff was of the opinion that many of the hourly estimates of the Company were inflated.  
4 According to Staff, the following Company estimates could have been reduced by at least one-half:  
5 the Company estimated 40 hours for the Hearing; 20 hours to prepare rebuttal testimony; 30 hours  
6 for a post-hearing brief; and 32 hours to prepare cross-examination.

7 Staff was also critical of the Company's hours for non-legal preparation. While the Company  
8 allowed 200 hours for rebuttal testimony preparation, Staff was of the opinion that 100 hours was a  
9 more reasonable estimate. Staff recommended elimination of an amount of \$4,000 for a stipulation  
10 meeting. According to Staff, it is unreasonable for the Company to request substantial time for a  
11 hearing and at the same time include expense for a settlement meeting. Staff also recommended  
12 elimination of one-half of the \$6,000 requested for a cost of service study. According to Staff, the  
13 Company did not perform a cost of service study but had simply applied the revenue requirement  
14 from the current case to a prior cost of service study prepared by Staff. Lastly, Staff recommended  
15 disallowance of a \$3,000 expense for a "field trip" for personnel of the Western Region of American  
16 Water Works Service Company ("AWWC Western Region") to familiarize themselves with the  
17 Company's plant. According to Staff, the personnel of the AWWC Western Region should already  
18 be familiar with the operating companies which it serves. Any additional information could be gotten  
19 through telephone and/or written exchanges.

20 Based on all the above, Staff recommended rate case expense of \$44,850 for this case. The  
21 following is a breakdown of that amount:

|    |                    |                 |
|----|--------------------|-----------------|
| 22 | Legal              | \$19,150        |
| 23 | Case Preparation   | \$ 9,000        |
| 24 | Rebuttal Testimony | \$ 3,000        |
| 25 | Hearing            | \$ 9,200        |
| 26 | Miscellaneous      | <u>\$ 4,500</u> |
| 27 |                    | \$44,850        |
| 28 |                    |                 |

1 RUCO also criticized the Company's request for a \$3,000 "field trip" for AWWC Western  
2 Region personnel. According to RUCO, the AWWC Western Region already has the records of  
3 Applicant in California and would not need to visit the plant location. As a result, RUCO  
4 recommended disallowance of the \$3,000 amount. In addition, PJCO believed it would be  
5 inappropriate to allow a utility to recover prior unrecovered rate case expense. RUCO was of the  
6 opinion that the amortization period for rate case expense was the estimate of time that rates are  
7 reasonably expected to be in effect. Since it is an estimate, it is normal for some under or over  
8 recovery of rate case expense. Since over recovery of rate case expenses are never refunded to  
9 ratepayers, RUCO asserted it is not fair to allow the Company to recover prior under collected rate  
10 case expenses. Accordingly, RUCO recommended denial of the Company's request to reamortize  
11 prior rate case expense.

12 In response, the Company concurred with Staff's recommendation on amortization of the  
13 balance of the previous rate cases. The Company asserted that there was no justification for Staff's  
14 adjustments for the current case. According to the Company, it has little control over the legal fees  
15 incurred in a rate case since it must react to what Staff and intervenors recommend. The Company  
16 believes that those recommendations largely control the rate case expense, and not the size of the  
17 Company as Staff has attempted to utilize for comparison purposes. As to the cost of service study,  
18 the Company indicated that it took a significant number of hours to input bill analysis data. In fact,  
19 the Company witness deleted "many, many hours that could have been billed".

20 In reply, Staff criticized the Company for not presenting a straight-forward case and for  
21 providing contradictory information or incomplete answers to data requests. Further, Staff noted that  
22 personnel of the AWWC Western Region involved in the rate case are already allocating portions of  
23 their time via the monthly charges already included in operating expenses. Lastly, even if there were  
24 a significant amount of time to input bill analysis data for the cost of service study, Staff asserted that  
25 data entry is a function which should not be billed at the same rate as a cost of service analysis.

26 The Company didn't dispute Staff's assertion that Staff had not asked an excessive number  
27 of data requests. However, the Company argued that the number of RUCO's questions were clearly  
28 excessive and that RUCO's intervention was the primary cause of the Company's rate case expense.

1 With one exception, the Company noted that the personnel involved in the preparation of the rate case  
2 did not allocate any costs to the Company as part of the monthly AWWC Western Region invoices.  
3 According to the Company, the data entry for the cost of service study was billed at 50 percent of  
4 the normal rate of their cost of service expert.

5 The Company's rate case expenses are clearly excessive in comparison to other similarly sized  
6 utilities. We concur with RUCO and Staff that the "field trip" for AWWC Western Region personnel  
7 was either unnecessary or was a one-time nonrecurring plant visit. We concur there were other hourly  
8 estimates that were excessive, such as 40 hours for hearing time and 30 hours for a post-hearing brief.  
9 We also concur with Staff that it is unreasonable to include \$4,000 for a stipulation meeting while  
10 including substantial time for a hearing. While there is evidence of excessive rate case expense, it  
11 is difficult to precisely quantify the dollar amount. We note that this case was similar to the  
12 Company's previous rate case in which the Commission allowed \$40,000 of rate case expense to be  
13 amortized over a two year period. We acknowledge that the intervention of RUCO in this case  
14 probably would have resulted in additional time and effort by the Company. We must conclude there  
15 should be some increase in allowed rate case expense over the previous case but certainly not a 75  
16 percent increase. Based on all the above, we will allow 50 percent of the proposed increase of  
17 \$36,300 over the rate case expenses allowed in the Company's previous case. Accordingly, we will  
18 allow total rate case expense of \$58,150 (current case) plus \$35,560 (previous rate cases) or \$93,710  
19 amortized over two years at an annual rate of \$46,855. This will result in a reduction of \$14,145  
20 from the Company's annual request of \$61,000.

21 6. Central Arizona Project Municipal and Industrial Capital Charges

22 The Company made a pro forma adjustment of \$67,851 to reflect the projected Municipal and  
23 Industrial ("M&I") capital charges for 1995. The M&I charges are contractual annual charges  
24 assessed by the Central Arizona Conservation Water District ("CAWCD") that the Company must pay  
25 in order to retain its CAP allocation. There are charges which are required to be paid whether CAP  
26 water is taken or not. The M&I charges are assessed based on the amount of CAP allocated to the  
27 Company in question.

28 Staff recommended denial of any current recovery on the basis that existing customers were



1 receiving no benefits from the M&I charges. Staff acknowledges that the Commission has previously  
 2 approved these charges for another water company<sup>10</sup>. however, that company was actually using CAP  
 3 water. Staff listed several alternative recommendations in which the M&I costs would be included  
 4 in rate base if the Company could provide a plan to use CAP water.

5 The Company did not dispute Staff's recommendation for removal of the \$67,851 of M&I  
 6 charges from expenses. In fact, the Company proposed the use of Alternative I, CAP 2000, as  
 7 presented in the November 9, 1994 Commission workshop. Pursuant to that methodology, the  
 8 Company would amortize over a 25 year period the deferred CAP expenses above-the-line. Those  
 9 deferred costs total \$190,882 as set forth below:

|    |                                      |           |
|----|--------------------------------------|-----------|
| 10 | Prepaid Expenses                     | \$ 29,261 |
| 11 | Supplemental Study Deferred Expenses | \$102,258 |
| 12 | Deferred CAP Expenses                | \$ 30,693 |
| 13 | CAP Costs from Expenses              | \$ 5,557  |
|    | CAP Cost paid Nov. 1994              | \$ 23,113 |
|    |                                      | \$190,882 |

14 This would result in an annual charge to customers of \$7,635, which is more than offset by  
 15 the benefits customers have received. Because of its CAP allocation, the Company was granted a 100  
 16 year assured water supply status from the Arizona Department of Water Resources ("ADWR"). This  
 17 has allowed the Company to serve new residential subdivisions with 150 residential customers which  
 18 resulted in fixed costs being spread over a larger customer base. The Company estimated the annual  
 19 savings to established customers would be approximately \$41,000 which would more than offset the  
 20 \$7,635 cost. The Company recognized that adoption of Alternative I, CAP 2000 will preclude  
 21 recovery of future CAP expenses.

22 In response, Staff indicated they would not recommend approval of Alternative I, CAP 2000  
 23 until the following conditions are met by the Company:

- 24 (1) A feasibility plan should be filed for review and approved by Staff which details how,  
when and why CAP water will or will not be utilized;
- 25 (2) Staff should be allowed to audit the \$190,882 of deferred CAP charges to determine  
26 the appropriate amount for future recovery from ratepayers; and

27  
 28 <sup>10</sup> See Decision No. 57395, dated May 23, 1991, concerning the Chaparral City Water  
 Company.

- 1 (3) The Company must agree that it will not seek to recover from the general body of  
2 ratepayers any future CAP charges related to current CAP allotment.

3 Subject to the aforementioned conditions, Staff recommended the Company be allowed to recover an  
4 annual surcharge assessed against customers of record in December of each year commencing with  
5 December of 1995. Based on the above, Staff recommended the Company be ordered to file its  
6 feasibility plan by June 30, 1995. Staff would then conduct an audit of the Company's prior CAP  
7 charges and file a report in this docket with comments and recommendations. As part of its rejoinder  
8 testimony, the Company agreed to Staff's conditions and recommendations. We concur.

9 RUCO opposed Staff's recommendation to allow any recovery of CAP deferral costs.  
10 According to RUCO, the Staff recommendation is contrary to Decision No. 58419 in which the  
11 Commission stated, "CAP costs should not be recovered through rates until the utility is actually  
12 receiving CAP water". RUCO asserted that a "feasibility plan" regarding CAP usage does not provide  
13 any current benefit to ratepayers. RUCO was of the opinion that the Company should not be allowed  
14 to recover the CAP deferrals if it decides not to use the CAP water.

15 We find that the developers of new subdivisions in the Company's service territory were the  
16 primary beneficiaries of the Company's CAP allocation. Without the 100 year assured water supply  
17 designation resulting from the CAP allocation, new subdivisions could not have been developed.  
18 Even with that said, we must disagree with RUCO's assertion that current ratepayers have received  
19 no benefits. The Company has demonstrated that the annual charges to customers from the CAP  
20 deferrals would be more than offset by the benefits customers have received. Because the CAP costs  
21 have been escalating, the Company has made a rational decision to not burden its general body of  
22 ratepayers for future CAP costs. We believe the Company should be commended for modifying its  
23 position on CAP water and not attempt to continue with a plan that may have been reasonable at  
24 inception but would clearly be an economic burden to ratepayers. Based on all the above, we concur  
25 with Staff's recommendations.

26 7. Property Taxes

27 The Company adjusted property taxes upward by \$20,411 to reflect the estimated property  
28 taxes for Well No. 17. Staff annualized the Company's most recent property tax bill which resulted

1 in a \$18,321 increase over TY property taxes and a \$2,090 downward adjustment from the Company's  
2 proposal. Staff and RUCO were critical of the Company's use of an Arizona Department of Revenue  
3 ("DOR") formula which has been disallowed on numerous occasions by this Commission. According  
4 to Staff and RUCO, the DOR formula is based on Company projections of plant and revenues as well  
5 as many variables such as assessed value ratio. In fact, the assessed value ratio has decreased since  
6 the Company's application and will continue to decrease one percent per year through 1997. Staff  
7 did recompute the most recent property tax bill with the most recent assessed value ratio which  
8 resulted in a \$11,000 reduction. However, Staff acknowledged that the most recent bill appeared to  
9 not include Well No. 17 which may have offset the change in the assessed value ratio. Staff  
10 concluded that the only known and measurable amount was the most recent property tax bill.

11 In response, the Company proposed an additional upward adjustment to property taxes in the  
12 amount of \$13,107 or \$33,518 above the TY amount. The Company arrived at its revised property  
13 tax amount by use of the most recent assessment value ratio and the revenue level recommended in  
14 this proceeding.

15 We concur with Staff and RUCO. Consistent with the previous Commission decisions, the  
16 Company's proposed property tax adjustment is not known and measurable.

17 8. Purchased Pumping Power

18 The Company made a pro forma adjustment of \$6,984 to increase purchased pumping power  
19 expense in order to coordinate well production expense with the Company's adjusted level of  
20 consumption and to reflect well usage to include Well No. 17.

21 As a result of its analysis, RUCO concluded that the Company's calculation contained a  
22 number of errors. First, RUCO asserted that the historical power data used by the Company in its  
23 pumping power calculations was inaccurate. In addition, RUCO indicated that the Company had  
24 failed to update the energy costs based on the most recent APS rates. Based on RUCO's  
25 recalculation, the Company's proposed pumping power should be reduced by \$21,505. RUCO's  
26 proposed adjustment was offset by a \$5,598 increase in order to reflect RUCO's additional pumping  
27 power requirements for its consumption annualization for year-end level of customers. Lastly, RUCO  
28 proposed a downward adjustment of \$115 to non-pumping purchased power to reflect the APS rate

1 change.

2 Staff updated the Company's purchased power costs to reflect the most recent APS rates. As  
3 a result, Staff recommended a downward adjustment of \$18,469 in TY power expenses. Staff also  
4 proposed an increase of \$1,717 to reflect the consumption for the Monterey and Lincoln subdivisions.

5 The Company subsequently recalculated its purchased power expense based on adjusted power  
6 usage for its wells, the availability of Well No. 17, and the most recent APS rates. Based on its  
7 recalculation, the Company proposed a downward adjustment of \$25,185 to purchased power  
8 expenses. The Company concurred with RUCO's proposed (\$115) adjustment for non-pumping  
9 power. After review of the Company's revision, Staff revised its adjustment to an overall reduction  
10 of \$25,286. The Company did not dispute Staff's revision.

11 Based on all the above, we concur with the adjustments to reflect the updated APS rates for  
12 both the pumping and non-pumping power for a total adjustment of (\$25,401). Consistent with our  
13 revenue adjustments herein, we also concur with RUCO's \$5,598 adjustment to reflect additional  
14 power requirements for its consumption annualization. We will partly offset the RUCO adjustment  
15 with the \$1,717 adjustment by Staff for increased consumption. According to the Company, the  
16 purchased power would need to be increased by \$32,851. We will approve the Company's purchased  
17 power adjustment to reflect the additional water production. The overall net result is an upward  
18 adjustment of \$11,331 to the Company's original purchased power request.

19 9. Payroll Expenses

20 The Company made a \$61,736 pro forma increase to TY operations and maintenance labor  
21 expenses. The majority of the adjustment was to increase the TY number of twelve employees to a  
22 normalized level of thirteen. The Company also adjusted labor expenses to include a 1994 salary  
23 increase.

24 Staff generally concurred with the Company's pro forma adjustment. In fact, based on Staff's  
25 calculations the Company's pro forma adjustment needed to be increased by another \$36,714.

26 RUCO criticized the Company's normalization to include thirteen employees. According to  
27 RUCO, the Company had only twelve employees during the TY and any increase would create a  
28 mismatch between the number of employees and the corresponding customer base. RUCO also

1 criticized the Company's inclusion of a four percent across-the-board wage increase when not all of  
2 the employees actually received a four percent increase. RUCO recommended using the actual July  
3 1994 increase since it was now known. Lastly, RUCO indicated the Company had included a double  
4 count of some construction wages. Based on all the above, RUCO recommended a decrease of  
5 \$45,109 to the Company's proposed wage level.

6 In response, the Company concurred with RUCO's adjustment with the exception of the  
7 number of employees. According to the Company, it had thirteen employees as of November 27,  
8 1994. Further, the last employee to be hired was the Operations Manager as it took a seven month  
9 search to find the appropriate person. The Company requested the \$47,500 salary for the Operations  
10 Manager should be added to RUCO's proposed payroll level. The result would be an increase of  
11 \$2,391 to the Company's original proposal.

12 We concur with the Company. We find that normalization of the number of employees is  
13 reasonable. We would be more concerned with the increase in TY employees if the Company's  
14 customer base was growing rapidly. However, that is not the case and we will approve the  
15 Company's additional adjustment of \$2,391.

16 10. Payroll Taxes

17 The Company had requested payroll taxes in the amount of \$29,788. Staff recommended  
18 increasing that amount by \$1,917 to reflect Staff's recomputed wage levels. RUCO proposed a  
19 decrease of \$7,185 to reflect its recommended wage levels.

20 In response, the Company disagreed with the number of employees used by RUCO in its  
21 calculation. In addition, the Company indicated RUCO had not utilized the most current payroll tax  
22 rate in its calculation. The Company revised its payroll taxes upward by \$232 to reflect its payroll  
23 update.

24 Consistent with our payroll determination, we concur with the Company. Accordingly, we will  
25 approve the Company's \$232 adjustment.

26 11. Capitalization of Payroll Benefits

27 For every dollar of payroll expended, the Company capitalizes an appropriate level of payroll  
28 benefit expense. Based on its proposed capital payroll, RUCO recommended a \$2,379 reduction in

1 payroll benefit expense.

2 The Company agreed with RUCO that an adjustment was necessary. However, based on the  
3 Company's computation the proper adjustment should be (\$2,021). Consistent with our previous  
4 determination, we concur with the Company. Accordingly, we will approve the Company's (\$2,021)  
5 adjustment.

6 12. Transportation Expense

7 The Company made a \$15,378 adjustment to TY transportation expenses in order to normalize  
8 the cost of replacing Company owned vehicles with newer leased vehicles. Staff concurred with the  
9 Company's proposed normalization. However, Staff updated the Company's lease rates and as a  
10 result recommended an additional \$430 increase.

11 RUCO analyzed the transportation expenses and recommended a downward adjustment of  
12 \$5,982. The primary reason for RUCO's adjustment resulted from the Company's double counting  
13 certain lease expenses for a seven month period.

14 The Company acknowledged in a response to a RUCO data request that it had inadvertently  
15 double counted five TY lease payments on a dump truck. As a result of Staff and RUCO's  
16 recommendations, the Company recomputed its transportation expenses with a net reduction of \$2,257.

17 Neither Staff or RUCO opposed the Company's recommended revision. Accordingly, we will  
18 approve a downward adjustment to transportation expenses in the amount of \$2,257.

19 13. Non-Utility Expenses

20 RUCO recommended disallowance of TY expenses in the amount of \$3,334 to remove the cost  
21 of safety awards, Christmas gifts and excess insurance reimbursement. According to RUCO, these  
22 costs are not necessary to the provision of water service and should not be paid by ratepayers. The  
23 cost breakdown is as follows:

|    |                                |         |
|----|--------------------------------|---------|
| 24 | Safety Incentive Awards        | \$ 455  |
| 25 | Safety Award Luncheon          | \$ 550  |
| 26 | Gifts at Safety Luncheon       | \$1,089 |
| 27 | Christmas Gift Certificates    | \$ 560  |
| 28 | Excess Insurance Reimbursement | \$ 680  |

1 The Company did not dispute RUCO's proposed adjustments. However, the Company  
2 indicated Staff had already made all of the adjustments except for the insurance reimbursement.

3 In response, with one exception RUCO concurred with the Company. According to RUCO,  
4 there was no adjustment made by Staff or the Company for the Christmas gift certificates.

5 Based on the above, we concur with RUCO's recommendation. However, in order to preclude  
6 a double adjustment, we will approve only an adjustment in the amount of (\$680 - \$560 or \$1,240).

7 14. Depreciation Expense

8 The Company's TY depreciation expenses totaled \$151,471. The Company made a \$167,136  
9 pro forma adjustment to increase depreciation expenses to a total amount of \$318,607. Although the  
10 increase reflected new plant in service, the majority of the adjustment resulted from the Company  
11 changing from a composite depreciation rate of 2.39 percent to 3.96 percent<sup>11</sup>. One of the reasons  
12 given by the Company for the large increase in the composite depreciation rate was that the cost of  
13 removal has increased dramatically in the past twenty years. As an example of significant cost of  
14 removal, the Company referred to the removal, handling and disposal of asbestos cement pipe. In  
15 addition, the Company indicated it has been experiencing a high degree of failures occurring on  
16 plastic polyethylene service line pipe over the past several years. This has resulted in a shorter than  
17 normal average service life for this pipe.

18 Neither RUCO nor Staff opposed the Company's proposed change in depreciation rates. Staff  
19 recalculated the depreciation based on its adjusted plant balances. In addition, Staff removed deferred  
20 depreciation for Well No. 17 which the Company had included in its pro forma adjustment.  
21 According to Staff, there are many additions and deletions of plant which occur between test years  
22 for which no retroactive adjustments are made. For that reason, Staff opposed the retroactive  
23 adjustment for Well No. 17. Staff's overall adjustment totaled (\$3,281).

24 For reasons similar to those given by Staff, RUCO opposed the deferred depreciation for Well  
25 No. 17. RUCO also recalculated the depreciation based on its adjusted plant balances. RUCO's  
26 overall adjustment was a \$22,665 decrease from the Company's proposal.

27  
28 <sup>11</sup> Approximately \$126,316 of the adjustment is attributable to the change in depreciation rates.

1 The Company subsequently agree in concept to Staff's adjustment including the removal of  
2 the deferred depreciation for Well No. 17. The Company did take exception to RUCO's removal of  
3 depreciation related to the PILOR arrangements. The Company asserted that even if these were  
4 considered as advances, depreciation expense should be included. Based on the Company's  
5 recalculated depreciation expense, the Company recommended a downward adjustment of \$8,892 to  
6 its original request.

7 Consistent with our rate base discussion, we will reject RUCO's recommendation to eliminate  
8 depreciation related to the PILOR arrangements. We concur with RUCO and Staff that the deferred  
9 depreciation from Well No. 17 should not be included since the Company subsequently removed that  
10 deferred depreciation in its recalculation, we will approve the Company's (\$8,892) adjustment. We  
11 note that we have approved the increased depreciation rate in this case since it was unopposed.

12 **15. Backflow Prevention Program**

13 The Company proposed a \$25,000 adjustment to TY expenses for the cost of implementing  
14 a backflow prevention program. In response to a Company request, the Backflow Prevention Device  
15 Inspections, Inc. ("BPDI") company submitted a bid of \$89,993 to develop and administer the  
16 Company's backflow prevention program. The bid for the development phase ("Phase I") of the  
17 program was for \$30,154 while the bid for three years of administrative services ("Phase II") was for  
18 \$59,839.

19 Staff recognized that the initial implementation costs for a backflow prevention program would  
20 be costly. As a result, Staff supported the Company's request.

21 RUCO opposed the inclusion of most of the \$25,000 for the services of BPDI. According to  
22 RUCO, many of the tasks involved with this program are secretarial or administrative in nature and  
23 could be performed by existing Company employees. RUCO was also of the opinion that the  
24 estimated 400 homes per year quoted by BPDI was excessive. Another reason RUCO was critical  
25 of inclusion of the \$25,000 amount was because the focus of the program was on 114 commercial  
26 sites that may require backflow prevention devices. Based on the above, RUCO recommended denial  
27 of the entire \$59,839 for administrative services and \$8,899 of the \$30,154 requested for the  
28 development phase. Of the remaining \$21,255 for the development phase, RUCO recommended those



1 costs be amortized over six years since the program will be focused on only 114 of the approximately  
2 4,000 customers.

3 In response, the Company indicated it did not have a sufficient number of personnel or the  
4 expertise to handle the backflow prevention program. The Company also took exception to RUCO's  
5 assertion that only the 114 commercial customers have the possibility of needing backflow prevention  
6 devices. According to the Company, there are a number of residential customers who also could  
7 possibly require a backflow prevention device.

8 RUCO was skeptical of the Company's assertion that existing employees did not have the  
9 time to perform the various administrative tasks. According to RUCO, the consultant's proposal  
10 indicated 162 hours was needed over a six month period to perform the Phase I tasks. Since the  
11 Company has five office employees, the amount of additional work would be less than an hour and  
12 a half per employee per week. As to the scope of the backflow program, the statement regarding the  
13 114 commercial accounts was based on information provided by the Company. RUCO asserted that  
14 if additional sites have backflow problems, the Company's tariff requires the customer to bear the cost  
15 of complying.

16 We find that a backflow prevention program will benefit all customers and accordingly the  
17 non-site specific costs should be borne by all customers. As to the amount requested, it was based  
18 on a bid process. Absent some evidence that another individual/firm would establish the program  
19 at lesser hours/costs, we must conclude the bid was reasonable. Accordingly, we will approve the  
20 Company's \$25,000 adjustment for implementing a backflow prevention program.

21 16. Service Company Charges

22 The Company is billed monthly for services rendered on its behalf from AWWC by the  
23 Belleville Lab and the AWWC Western Region Office.<sup>12</sup> RUCO determined that the Service  
24 Companies had billed Applicant for additional expenses of \$4,521 for its 1993 rate case. RUCO  
25 recommended disallowance of those expenses.

26 Staff had also recommended a disallowance of \$109 related to a AWWC Western Region  
27

28 <sup>12</sup> Collectively hereinafter referred to as "Service Companies".

employee attending a Commission Open Meeting related to a previous rate case. RUCO had included \$454 in its \$4,521 amount for meals, lodging and travel expenses related to the same Open Meeting expenses disallowed by Staff.

The Company subsequently concurred with the \$454 disallowance but did not address the remaining portion of RUCO's recommended \$4,521 disallowance.

Based on the evidence presented, it is our understanding that the entire \$4,521 amount is related to previous rate cases. Further, that amount is over and above the amount previously allowed by the Commission for rate case expenses. As a result, we will approve RUCO's recommended disallowance of \$4,521.

#### 17. Statement of Net Operating Income

Based on the foregoing, the following statement details the adjusted test year net operating income for ratemaking purposes:

#### Operating Income Summary

|  |                         |
|--|-------------------------|
| <u>Operating Revenues (As Adjusted Herein)</u> | \$2,619,290             |
| <u>Operating Expenses (Per Company)</u>        | \$2,527,645             |
| <u>Commission Approved Adjustments</u>         |                         |
| PBOPs  | (\$ 52,813)             |
| Group Insurance                                | \$ 1,317                |
| Sampling Errors                                | (\$ 8,229)              |
| Miscellaneous                                  | (\$ 27,977)             |
| Rate Case                                      | (\$ 14,145)             |
| M&I Charges                                    | (\$ 67,851)             |
| Property Tax                                   | (\$ 2,090)              |
| Purchased Power                                | \$ 11,331               |
| Payroll  | \$ 2,391                |
| Payroll Taxes                                  | \$ 232                  |
| Capitalization of Payroll Benefit              | (\$ 2,021)              |
| Transportation                                 | (\$ 2,257)              |
| Non-Utility                                    | (\$ 1,240)              |
| Depreciation                                   | (\$ 8,892)              |
| Service Companies                              | (\$ 4,521)              |
| Income Taxes                                   | \$ 73,847 <sup>13</sup> |
| Total Operating Expenses                       | <u>\$2,424,727</u>      |
| <u>Net Operating Income</u>                    | <u>\$ 194,563</u>       |

<sup>13</sup> Included in this calculation is a tax adjustment of (\$16,194) to reflect synchronized interest and (\$3,720) to reflect ITC amortization and (\$13,767) to reflect amortization of deferred taxes.

## VI. COST OF CAPITAL

### A. Capital Structure

The Company requested approval of its December 31, 1993 capital structure which consisted of 4.93 percent long-term debt, 40.84 percent short-term debt, and 54.23 percent of common equity. The Company's capital structure included the \$168,852 of debt associated with its PILOR agreements. RUCO recommended these be treated as advances in aid of construction and remove them from the Company's capital structure. RUCO's recommended capital structure consisted of 42.96 percent short-term debt and 57.04 percent of common equity. Staff concurred with the Company that the actual capital structure should be used. However, Staff updated the capital structure to September 30, 1994, which consisted of 4.27 percent long-term, 42.12 percent of short-term debt, and 53.61 percent of common equity.

We find that the PILOR associated debt is appropriate to include as part of the Company's capital structure. Further, we concur with Staff that the most recent capital structure should be utilized. Accordingly, we will approve a capital structure consisting of 4.27 percent of long-term debt, 42.12 percent of short-term debt, and 43.61 percent of common equity.

### B. Cost of Debt

The long-term debt consists entirely of debt associated with the PILOR arrangements. The cost of debt associated with those arrangements is 6.09 percent. We find such a cost to be reasonable and will approve the same for the Company's capital structure.

The cost of the short-term debt is associated with a Mellon Bank short-term line of credit that is subject to change on a daily basis. The rate is equal to the Average Federal Funds Rate plus 1.00 percent. As of January 31, 1994, the Federal Funds Rate was 3.32 percent. As a result, the Company requested approval of a short-term rate of 4.32 percent. RUCO used the same rate as part of its cost of capital analysis. Staff updated the Federal Funds Rate to November 15, 1994, at which time it had increased to 5.4375. Accordingly, Staff recommended a short-term debt rate of 6.4375 percent.

In response, the Company further updated the Federal Funds Rate to December 8, 1994, at which time it had increased to 5.625 percent. The Company then requested approval of a short-term debt of 6.625 percent.

1 While Staff acknowledged the Federal Funds Rate had increased subsequent to November 15,  
2 1994, they did not recommend any additional adjustment. According to Staff, the Federal Funds Rate  
3 will continue to fluctuate and may go up or down. Further, Staff indicated it had already adjusted  
4 the short-term debt cost to a period almost one year beyond the end of the TY.

5 The Company included a forecast from the Mellon Bank which indicates the Federal Funds  
6 Rate would continue to increase in 1995. As a result, the Company requested the most current rate  
7 be used to represent the Company's short-term debt costs. Subsequent to the hearing in this matter,  
8 the Federal Funds Rate was raised on February 1, 1995 to 6.0 percent. On February 2, 1995, the  
9 Company filed a Request for Official Notice ("Request") of the rate increase. Staff opposed the  
10 Request as being too far outside the TY.

11 We concur with the Company that the February 1, 1995 Federal Funds Rate is the best  
12 indicator of the Company's short-term debt costs at this time. While Staff is correct that this rate can  
13 fluctuate either up or down, the current trend is clearly upward. Accordingly, we will approve a  
14 short-term cost of 7.00 percent for the Company.

15 C. Cost of Common Equity

16 The Company was authorized a return on equity of 11.00 percent in its most recent rate case<sup>14</sup>.  
17 The Company indicated in its application that economic conditions had not changed significantly since  
18 Decision No. 58419 and as a result the 11.00 percent rate was still reasonable. RUCO also used the  
19 11.00 percent rate in its analysis.

20 In determining its recommended cost of equity, Staff used the discounted cash flow ("DCF")  
21 model, the Capital Asset Pricing Model ("CAPM") and a comparison earnings analysis. Based on  
22 these various methodologies, Staff determined a range of 9.6 percent to 12.25 percent as the cost of  
23 equity for the Company. Staff recommended the mid-point of that range or 10.925 percent be  
24 approved as the cost of equity in this case.

25 Although Staff's recommended cost of equity was almost identical to the Company's original  
26 request, the Company was critical of Staff's analysis and recommendation of 10.925 percent. The  
27

28 <sup>14</sup> See Decision No. 58419, dated September 30, 1993.

Company concluded that because of its increasingly leveraged capital structure and the trend of increasing interest rates, the Company's common equity investment is more at risk than when it was awarded the 11.00 percent cost of equity.

We find the Company's request to authorize a return on equity of 11.00 percent to be reasonable. Staff's analysis supports the reasonableness of continuing with the currently authorized 11.00 percent rate.

#### Cost of Capital Summary

| <u>Capital Components</u> | <u>Percentage of<br/>Total</u> | <u>Cost</u> | <u>Composite<br/>Cost</u> |
|---------------------------|--------------------------------|-------------|---------------------------|
| Long-Term Debt            | 4.27%                          | 6.09%       | .0026                     |
| Short-Term Debt           | 42.12%                         | 7.00%       | .0295                     |
| Common Equity             | 53.61%                         | 11.00%      | .0590                     |
|                           |                                |             | .0911                     |

#### VII. AUTHORIZED INCREASE

With adjustments adopted herein, the adjusted TY operating income is \$213,929. Further, the 9.11 percent cost of capital translates into a 5.57 percent rate of return on FVRB as authorized hereinabove. Multiplying the 5.57 percent rate of return by the FVRB produces required operating income of \$336,773. This is \$142,210 more than the Company's TY adjusted operating income. Multiplying the deficiency by the revenue conversion factor of 1.6835 results in an increase in revenues of \$239,411 or a 9.14 percent net increase over TY revenues.

#### VIII. COST ALLOCATION AND RATE DESIGN

##### A. Revenue Allocation

The Company generally used an updated cost of service ("COS") study previously performed by Staff. Based on the updated COS study, the Company determined that the smaller meter sizes<sup>15</sup> were contributing negative returns while the larger meter sizes were contributing rate of returns in

<sup>15</sup> Specifically, 5/8 inch, 3/4 inch and 1 inch meters.

excess of 34 percent. Based on its COS study, the concept of gradualism, and its requested increase of \$508,323, the Company proposed the following increases by customer class:

| <u>Customer Class</u> | <u>Proposed Increase</u> | <u>Class Percent Increase</u> | <u>Percent of Total Increase</u> |
|-----------------------|--------------------------|-------------------------------|----------------------------------|
| Residential           | \$445,665                | 26.49%                        | 87.70%                           |
| Commercial            | \$ 51,884                | 8.81%                         | 10.20%                           |
| Fire Protection       | \$ 64                    | 1.52%                         | .01%                             |
| Public Authority      | \$ 407                   | 10.05%                        | .08%                             |
| Resale                | \$ 3,902                 | 7.92%                         | .77%                             |
| Miscellaneous         | \$ 930                   | 10.48%                        | .18%                             |
| Turf Irrigation       | \$ 5,471                 | 3.33%                         | 1.10%                            |
| Class Total           | \$508,323                | 20.32%                        | 100%                             |

Staff reviewed the Company's COS results and made some minor corrections. Staff's recommended increases by customer class are as follows:

| <u>Customer Class</u> | <u>Proposed Increase</u> | <u>Class Percent Increase</u> | <u>Percent of Total Increase</u> |
|-----------------------|--------------------------|-------------------------------|----------------------------------|
| Residential           | \$241,815                | 14.30%                        | 86.60%                           |
| Commercial            | \$ 27,520                | 4.73%                         | 9.90%                            |
| Fire Protection       | \$ 0                     | .00%                          | .00%                             |
| Public Authority      | \$ 230                   | 5.68%                         | .08%                             |
| Resale                | \$ 3,693                 | 7.66%                         | 1.30%                            |
| Miscellaneous         | \$ 558                   | 6.13%                         | .20%                             |
| Turf Irrigation       | \$ 5,294                 | 3.22%                         | 1.90%                            |
| Class Total           | \$279,160                | 11.05%                        | 100%                             |

RUCO criticized the Company's COS study for deviating from American Water Works Association allocation practices. Because RUCO's overall recommended increase was negligible (i.e. \$23,895), RUCO's rate design focused on conservation. RUCO's recommended increases by customer class are as follows:

| <u>Customer Class</u> | <u>Proposed Increase</u> | <u>Class Percent Increase</u> | <u>Percent of Total Increase</u> |
|-----------------------|--------------------------|-------------------------------|----------------------------------|
| Residential           | \$12,291                 | .71%                          | 51.40%                           |
| Commercial            | \$10,719                 | 1.63%                         | 44.80%                           |
| Fire Protection       | \$ 0                     | .00%                          | .00%                             |
| Public Authority      | \$ 55                    | 1.36%                         | .20%                             |
| Resale                | \$ 299                   | .61%                          | 1.30%                            |
| Miscellaneous         | \$ 135                   | 2.88%                         | .60%                             |
| Turf Irrigation       | \$ 397                   | .24%                          | 1.70%                            |
| <b>Class Total</b>    | <b>\$23,895</b>          | <b>.91%</b>                   | <b>100%</b>                      |

Because of the large differential in recommended increases in this case, the only meaningful comparison of the proposed increases is the percentage of the total increase recommended by customer class. It is clear that all of the parties have recognized that over 95 percent of any increase granted should apply to the combined residential and commercial classes. Staff and the Company were generally in agreement that by far the largest percentage of increase should go to residential while RUCO recommended the increase to the residential and commercial classes be almost equal. There was general agreement by all of the parties that any portion of the overall increase allocated to the remaining customer classes should not exceed 1.9 percent. The parties also generally agreed that the Fire Protection class should have little if any increase. Based on all the proposals and the evidence in support thereof, we will approve the following increases by customer class:

| <u>Customer Class</u> | <u>Approved Increase</u> | <u>Class Percent Increase</u> | <u>Percent of Total Increase</u> |
|-----------------------|--------------------------|-------------------------------|----------------------------------|
| Residential           | \$204,282                | 12.08%                        | 85.30%                           |
| Commercial            | \$ 27,728                | 4.76%                         | 11.60%                           |
| Fire Protection       | \$ 0                     | .00%                          | .00%                             |
| Public Authority      | \$ 196                   | 4.84%                         | .08%                             |
| Resale                | \$ 3,929                 | 8.20%                         | 1.90%                            |
| Miscellaneous         | \$ 174                   | 1.91%                         | .07%                             |
| Turf Irrigation       | \$ 3,102                 | 1.90%                         | 1.50%                            |
| <b>Class Total</b>    | <b>\$239,411</b>         | <b>9.14%</b>                  | <b>100%</b>                      |

#### B. Monthly Minimum Charges

As in previous cases, this Company and the Commission are still faced with the dilemma of

1 designing rates that will enable the Company to be in full compliance with the Arizona Department  
 2 of Water Resources ("ADWR") consumption requirements while not permitting the Company to over  
 3 earn. Even with recent drastic changes in the Company's rate design, the rates are relatively low for  
 4 the affluent soci-economic area. As a result, the parties were in general agreement that conservation  
 5 was still the primary concern for rate design. At the same time it was also generally recognized that  
 6 a portion of the overall increase granted should be apportioned to the monthly minimum charges,  
 7 albeit at a rate less than the overall increase granted.

8 The Company proposed a 12 1/2 percent increase across-the-board for the monthly minimum  
 9 charges. With two exceptions, Staff generally followed the same methodology as the Company with  
 10 an across-the-board increase albeit at a 7.1 percent increase to reflect Staff's lower revenue  
 11 requirement. The two exceptions were for the 5/8-inch and 3/4-inch meters in which Staff  
 12 recommended only a 2.7 percent increase. RUCO recommended the current 1,000 gallons included  
 13 with the monthly minimum be removed to reflect that there is no such thing as "free" water. As a  
 14 result, RUCO recommended a 30 percent decrease in the 5/8-inch meter size from the current \$5.60  
 15 to a new rate of \$3.90. Although the 3/4-inch meter is currently priced the same as the 5/8-inch  
 16 meter, RUCO recommended the 3/4-inch meter be priced \$1.60 more than the 5/8-inch meter because  
 17 of the larger demand put on the system. In response, the Company indicated that the average monthly  
 18 use for both the 5/8-inch and 3/4-inch meters were approximately 20,000 gallons and therefore the  
 19 rates should be the same. As the meter sizes increased beyond the 3/4-inch meter, RUCO's  
 20 percentage of increase gradually got larger until the increase for the 4-inch and 6-inch meters matched  
 21 the Company's proposal. The following is a summary of the current rates by meter size and the  
 22 proposed rates by the Company, Staff, and RUCO:

23 ...

24 ...

25 ...

26 ...

27 ...

28 ...



Monthly Minimum Charges (Includes 1,000 Gallons)

| <u>Meter Size</u> | <u>Present Rate</u> | <u>Proposed Rates</u> |                   | <u>Staff</u> | <u>% Increase</u> | <u>RUCO</u> | <u>% Increase</u> |
|-------------------|---------------------|-----------------------|-------------------|--------------|-------------------|-------------|-------------------|
|                   |                     | <u>Company</u>        | <u>% Increase</u> |              |                   |             |                   |
| 5/8"              | \$ 5.60             | \$ 6.30               | 12.5              | \$ 5.75      | 2.7               | \$ 3.90     | (30.3%)           |
| 3/4"              | \$ 5.60             | \$ 6.30               | 12.5              | \$ 5.75      | 2.7               | \$ 5.50     | (1.8%)            |
| 1"                | \$ 9.33             | \$ 10.50              | 12.5              | \$ 10.00     | 7.2               | \$ 9.00     | (3.9%)            |
| 1 1/2"            | \$ 18.67            | \$ 21.00              | 12.5              | \$ 20.00     | 7.1               | \$ 19.40    | 3.9%              |
| 2"                | \$ 29.87            | \$ 33.60              | 12.5              | \$ 32.00     | 7.1               | \$ 31.00    | 3.8%              |
| 3"                | \$ 56.00            | \$ 63.00              | 12.5              | \$ 60.00     | 7.1               | \$ 60.00    | 7.1%              |
| 4"                | \$ 93.33            | \$ 105.00             | 12.5              | \$ 100.00    | 7.1               | \$ 105.00   | 12.5%             |
| 6"                | \$ 186.87           | \$ 210.23             | 12.5              | \$ 200.00    | 7.0               | \$ 210.00   | 12.5%             |

Based on all the evidence, we believe that all of the monthly minimums should bear a fair share of the overall increase. Further, we will generally approve the Company's methodology of an equal percentage increase across-the-board. We also agree that because of the continued need to emphasize conservation, the percentage increase should be less than the overall increase granted in this case of 7.9 percent. Consistent with our overall approved revenue level, we will adopt Staff's proposed increase of 7.0 to 7.2 percent for all meter sizes except for the 3/4-inch meter. We concur with RUCO that the 3/4-inch meters do in fact have a higher capacity than 5/8-inch meters and should be priced to reflect the potential demand. In order to begin to recognize the differential in capacity, we will price the monthly minimum charge for the 3/4-inch meters 25 cents higher than the 5/8-inch meters. Lastly, although we agree with RUCO that there is no "free" water, the Commission will continue its policy to maintain 1,000 gallons in the monthly minimum when feasible. Based on all the above, we will approve the following monthly minimum charges per meter size:

Approved Monthly Minimum Charge (Includes 1,000 Gallons)

| <u>Meter Size</u> | <u>Approved Rate</u> | <u>Percent Increase</u> |
|-------------------|----------------------|-------------------------|
| 5/8"              | \$ 6.00              | 7.1%                    |
| 3/4"              | \$ 6.25              | 11.6%                   |
| 1"                | \$ 10.00             | 7.2%                    |
| 1 1/2"            | \$ 20.00             | 7.2%                    |
| 2"                | \$ 32.00             | 7.1%                    |
| 3"                | \$ 60.00             | 7.1%                    |
| 4"                | \$ 100.00            | 7.1%                    |
| 6"                | \$ 200.00            | 7.0%                    |

<sup>16</sup> RUCO's proposed rates do not include any gallonage charge.

C. Commodity or Usage Charge

In an effort to encourage water conservation, the Commission in Decision No. 57834, dated April 23, 1992, approved a two-tier commodity rate for residential customers with the second tier taking effect after 30,000 gallons. It was also recognized at the time that a fairly large increase would be necessary at the second tier level if conservation were to succeed in the generally affluent area in which the Company provides service. The Company now proposes to go one step further and add a third inverted tier rate in an effort to encourage conservation by the larger users. The Company chose 30,000 gallons as the starting point for its third tier since 20 percent of the water is used by those customers. The Company also proposed to reduce the starting point for its second tier from the current 30,000 gallons to 20,000 gallons since the average usage for both 5/8-inch and 3/4-inch meters was approximately 20,000 gallons. As to the non-residential customers, the Company proposed to continue with a single tier commodity rate with an increase consistent with its overall proposed increase by customer class. The Company's current and proposed rates are as follows:

Commodity or Usage Charge per 1,000 Gallons

| <u>Customers</u>                   | <u>Company<br/>Current</u> | <u>Ratio to Tier<br/># 1 Rates</u> | <u>Company<br/>Proposed</u> | <u>Ratio to Tier<br/># 1 Rates</u> |
|------------------------------------|----------------------------|------------------------------------|-----------------------------|------------------------------------|
| Residential                        |                            |                                    |                             |                                    |
| 1st Tier                           | \$0.51                     | 1.00                               | \$0.55                      | 1.00                               |
| 2nd Tier                           | \$1.21                     | 2.37                               | \$1.35                      | 2.45                               |
| 3rd Tier                           | NA                         |                                    | \$1.71                      | 3.11                               |
| Commercial                         |                            |                                    |                             |                                    |
| 1st Tier                           | \$0.83                     |                                    | \$0.90                      |                                    |
| 2nd Tier                           | NA                         |                                    | NA                          |                                    |
| 3rd Tier                           | NA                         |                                    | NA                          |                                    |
| Turf Facility Customers            |                            |                                    |                             |                                    |
|                                    | \$0.64                     |                                    | \$0.66                      |                                    |
| Resale Customers                   |                            |                                    |                             |                                    |
|                                    | \$1.04                     |                                    | \$1.12                      |                                    |
| Public Authority and Miscellaneous |                            |                                    |                             |                                    |
|                                    | \$0.83                     |                                    | \$0.90                      |                                    |

Both RUCO and Staff generally concurred with the Company's proposal to implement a three-

1 tier rate design for the residential class since the average residential usage is among the highest in the  
2 state. While both agreed with the Company's selection of a third tier at 80,000 gallons, both  
3 disagreed with the reduction of the second tier to 20,000 gallons. RUCO's disagreement reflected its  
4 overall revenue recommendation more than anything else. As a result, RUCO recommended retention  
5 of the current 20,000 gallon level. Staff, on the other hand, was concerned that a more gradual  
6 transition was preferable. Accordingly, Staff recommended the second tier start at 25,000 gallons.

7 RUCO also proposed three tiered rates for the commercial customers to encourage  
8 conservation. Consistent with the residential rate design, RUCO recommended the second tier start  
9 at 30,000 gallons of usage. As to the third tier, RUCO focused on the 2-inch meters since  
10 approximately 75 percent of the commercial consumption is attributable to that meter size. Based on  
11 billing data, RUCO determined that 56 percent of the consumption for the 2-inch meter size exceeds  
12 250,000 gallons per month on the average. As a result, RUCO recommended the third tier start at  
13 250,000 gallons. The Company opposed RUCO's three tier proposal for commercial customers since  
14 it would result in rate reductions at various levels of usage for the 1-inch, 1 1/2-inch, and 2-inch  
15 meter customers. According to the Company, this would send the wrong signal. In addition, the  
16 Company was concerned that a drastic change of the commercial rate design while also changing the  
17 residential rate design could result in revenue instability to the Company. Staff and RUCO's proposed  
18 rates are as follows:

19 ...  
20 ...  
21 ...  
22 ...  
23 ...  
24 ...  
25 ...  
26 ...  
27 ...  
28 ...

Commodity or Usage Charge Per 1,000 GallonsExcess of Minimum

|                                   | <u>Present</u> | <u>Staff</u> | <u>RUCO</u> |
|-----------------------------------|----------------|--------------|-------------|
| <b>Residential:</b>               |                |              |             |
| 1,001 - 30,000 gallons            | \$0.51         |              |             |
| Excess of 30,000 gallons          | \$1.21         |              |             |
| 1,001 - 25,000 gallons            |                | \$0.53       |             |
| 25,001 - 80,000 gallons           |                | \$1.27       |             |
| Excess of 80,000 gallons          |                | \$1.59       |             |
| 0 - 30,000 gallons                |                |              | \$0.51      |
| 30,001 - 80,000 gallons           |                |              | \$1.21      |
| Excess of 80,000 gallons          |                |              | \$1.25      |
| <b>Commercial:</b>                |                |              |             |
| 0 - 30,000 gallons                | \$0.83         | \$0.87       | \$0.70      |
| 30,001 - 250,000 gallons          | \$0.83         | \$0.87       | \$0.83      |
| Excess of 250,000 gallons         | \$0.83         | \$0.87       | \$0.87      |
| <b>Turf:</b>                      |                |              |             |
| All usage exceeding 1,000 gallons | \$0.64         | \$0.66       | \$0.64      |
| <b>Resale:</b>                    |                |              |             |
| All usage exceeding 1,000 gallons | \$1.04         | \$1.12       | \$1.04      |
| <b>Public Authority:</b>          |                |              |             |
| All usage exceeding 1,000 gallons | \$0.83         | \$0.87       | \$0.83      |

We concur with Staff, RUCO and the Company's proposals to implement a three-tier rate design for the residential class. We concur with the Company's choice and reasons set forth for the selection of the 80,000 gallon level for the starting point for the third tier. We concur with the Company that the starting point for the second tier needs to be reduced to further encourage conservation. We also concur with Staff's recommended gradual transition and will approve a starting point of 25,000 gallons for the second tier. We will continue to approve a ratio of approximately 2.30 to 1.0 between tier two to tier one rates and a ratio of approximately 3.00 to 1.00 between tier three to tier one rates. This will insure there are no decreases in any of the rates while increasing incentives to conserve at higher usage levels. We will approve rates for the commercial, turf, resale, and public

1 authority customers consistent with our approved revenue increase per class. We concur with RI/CO  
 2 that there also needs to be incentives for commercial customers to conserve. However, for the reasons  
 3 set forth by the Company we will not adopt an inclining tier rate in this case. We will direct the  
 4 Company to propose an inclining two tier rate design for commercial customers at its next rate case.  
 5 We also note that there was some discussion at the hearing regarding the Company having difficulty  
 6 meeting peak summer demands. As a result, we believe the Company needs to give serious  
 7 consideration to proposing seasonal rates in its next rate case. Our approved commodity rates per  
 8 1,000 gallons in excess of the minimum are as follows:

9  
 10 Commodity Charges (Per 1,000 gallons)

11 Class

|                             |        |
|-----------------------------|--------|
| 12 Residential              |        |
| 1,001 - 25,000 gallons      | \$0.52 |
| 25,001 - 80,000 gallons     | \$1.23 |
| 13 Excess of 80,000 gallons | \$1.52 |
| 14 Commercial               | \$0.87 |
| 15 Turf                     | \$0.65 |
| 16 Resale                   | \$1.13 |
| 17 Public Authority         | \$0.87 |
| 18 Miscellaneous            | \$0.87 |

19 D. Country Club Agreement

20 The Country Club opposed any increase in rates on the water delivered to the golf course. The  
 21 Country Club has invested in its own distribution system and as a result the Company simply provides  
 22 water to the Country Club's storage facilities during off-peak hours. Further, the water delivered to  
 23 the Country Club is subject to interruption if the Company needs the water elsewhere. The Country  
 24 Club also indicated that the Company's COS study shows the Company is already receiving a 120  
 25 percent rate of return from the golf course. The Country Club recently entered into a long-term  
 26 agreement ("Agreement") (See Exhibit I-1) with the Company which generally approved a monthly  
 27 service charge of \$200 per month and a commodity charge of \$0.64 per thousand gallons. Those  
 28

charges would be subject to an annual increase or decrease based on the Consumer Price Index for All Urban Consumers ("CPI") published by the United States Department of Labor, Bureau of Labor Statistics. The Agreement is subject to the approval of the Commission.

We will approve the Agreement between the Country Club and the Company subject to the following conditions:

- (1) The charges contained in the Agreement must reflect those approved in this case;
- (2) The CPI adjustment will commence effective January 1, 1996; and
- (3) The Director of the Utilities Division does not file any objection to the Agreement within 60 days of the date of this Order.

E. Miscellaneous

The Company proposed no changes to any of its miscellaneous charges. Staff indicated that the Company had neglected to recommend a service line and meter installation charge for the 1 1/2-inch meters. As a result, Staff recommended a charge of \$550 which was unopposed. Accordingly, we will approve the inclusion of the \$550 charge as part of the Company's tariff.

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Applicant is an Arizona corporation engaged in the business of providing water for public purposes within portions of Maricopa County, Arizona, pursuant to authority granted by this Commission.

2. On April 29, 1994, the Company filed an application with the Commission requesting authority to increase its rates and charges for rate services.

3. On May 31, 1994, Staff filed a notice in this docket that the application met the sufficiency requirements of A.A.C. R14-2-103.

4. Our June 13, 1994 Procedural Order set this matter for hearing commencing January 23, 1995.

5. During the TY ended December 31, 1993, the Company averaged approximately 4,300

1 customers.

2 6. The OCRB, RCNRB and FVRB for Applicant for the TY ended December 31, 1993  
3 are determined to be \$3,694,281, \$8,398,104, and \$6,046,193, respectively.

4 7. Applicant's adjusted TY operating income is \$194,563, based upon adjusted operating  
5 revenues of \$2,619,290 and adjusted operating expenses of \$2,424,727

6 8. In the circumstances of this proceeding, a rate of return on FVRB of 5.57 percent is  
7 just and reasonable

8 9. Operating income of \$336,773 is necessary to yield a 5.57 percent rate of return on the  
9 FVRB.

10 10. Applicant must increase operating revenues by \$239,411 to produce operating income  
11 of \$336,773.

12 11. Historically, the Company has been using the cash method to account for PBOP costs.

13 12. The cash method of accounting for PBOP costs results in intergenerational inequities  
14 which is reflected by the amount of Transition obligations.

15 13. The Company's future medical costs and retiree participation are not known and  
16 measurable.

17 14. Adoption of the FAS No. 106 method of accounting for PBOP costs for ratemaking  
18 purposes will not result in the intergenerational inequity problem being resolved for several decades.

19 15. Based on the evidence presented, we find the cash method of accounting for PBOP  
20 costs for ratemaking purposes is overall superior to the FAS No. 106 method.

21 16. COS studies, rate continuity, conservation, and simplicity and stability all must be taken  
22 into consideration for rate design purposes.

### 23 CONCLUSIONS OF LAW

24 1. Applicant is a public service corporation within the meaning of Article XV of the  
25 Arizona Constitution and a water utility within the meaning of A.R.S. §§40-250 and 40-251.

26 2. The Commission has jurisdiction over Applicant and of the subject matter of the  
27 application.

28 3. Notice of Applicant's application was given in accordance with the law.

4. The rates and charges for water services proposed by Applicant are not just and reasonable.

5. The rates and charges for water services established hereinafter are just and reasonable.

6. Applicant should be authorized to file revised tariffs for retail services consistent with the above FINDINGS OF FACT and the discussion herein under AUTHORIZED INCREASE AND COST ALLOCATION AND RATE DESIGN.

**ORDER**

IT IS THEREFORE ORDERED that Paradise Valley Water Company be, and hereby is, authorized and directed to file, on or before May 31, 1995: (1) revised schedules of rates and charges which shall be in accordance with the discussion, FINDINGS OF FACT and CONCLUSIONS OF LAW hereinabove.

IT IS FURTHER ORDERED that such revised schedules of rates and charges shall be effective for all service rendered on and after June 1, 1995.

IT IS FURTHER ORDERED that Paradise Valley Water Company shall notify its customers of means of an insert in its next regularly scheduled billing of the revised schedules of rates and charges authorized hereinabove.

IT IS FURTHER ORDERED that Paradise Valley Water Company shall modify its accrual methodology for allowance for funds used during construction such that interest is compounded no more frequently than semi-annually.

IT IS FURTHER ORDERED that Paradise Valley Water Company shall file a feasibility plan for review and approval of the Director of the Utilities Division which details how, when, and why Central Arizona Project water will or will not be utilized.

IT IS FURTHER ORDERED that the Utilities Division Staff shall conduct an audit of the deferred Central Arizona Project charges and shall file a Staff Report on or before September 15, 1995 in this Docket with comments and recommendations as to the appropriate amount of deferred charges to be recovered from the customers of Paradise Valley Water Company.

IT IS FURTHER ORDERED that effective December 1, 1995, Paradise Valley Company shall commence recovering an annual surcharge of the deferred Central Arizona Project charges determined



to be appropriate consistent with the Discussion contained herein.

IT IS FURTHER ORDERED that Paradise Valley Water Company shall propose an inclining two tier rate design for commercial customers as a part of its next rate case.

IT IS FURTHER ORDERED that the Agreement (Exhibit I-1) between Paradise Valley Water Company and the Paradise Valley Country Club is hereby approved effective 60 days from the date of this Order, subject to the conditions set forth herein.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JAMES MATTHEWS, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 5 day of May, 1995.

JAMES MATTHEWS  
EXECUTIVE SECRETARY

DISSENT  
JLR:dap

1 SERVICE LIST FOR:

PARADISE VALLEY WATER COMPANY

2 DOCKET NO.:

U-1303-94-182

3  
4 Norman D. James  
5 RYLEY, CARLOCK & APPLEWHITE, P.A.  
6 101 North First Avenue, 26th Floor  
7 Phoenix, Arizona 85003-1973  
8 Attorney for Paradise Valley Water Company

9 C. Webb Crockett  
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11 Two North Central Avenue  
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14 Attorney for Paradise Valley Country Club

15 Elaine Williams  
16 RESIDENTIAL UTILITY CONSUMER  
17 OFFICE  
18 1501 West Washington, Suite 227  
19 Phoenix, Arizona 85007

20 Paul A. Bullis, Chief Counsel  
21 Karen E. Nally, Staff Attorney  
22 Legal Division  
23 ARIZONA CORPORATION COMMISSION  
24 1200 West Washington Street  
25 Phoenix, Arizona 85007

26 Gary Yaquinto, Director  
27 Utilities Division  
28 ARIZONA CORPORATION COMMISSION  
1200 West Washington  
Phoenix, Arizona 85007

DECISION NO. 52022

## **EXHIBIT JMR-RB2**

Supporting documentation related to Company Rate Base  
Adjustment AAW-2: Additional amounts related to  
Jackrabbit/Invergordon and McDonald main projects

ARIZONA AMERICAN WATER  
PARADISE VALLEY OPERATING DISTRICT  
PUBLIC SAFETY SURCHARGE (PSS)

Summary of Public Safety/Fire Flow Task Orders Completed Since Jan. 1, 2005

| Project                     | Work Order | Account No.        | Description                    | Amount              |
|-----------------------------|------------|--------------------|--------------------------------|---------------------|
| Jackrabbit/Invergordon Main | 50069621   | 23020003.105150.31 | CWIP M&S-Plant                 | 42.60               |
|                             |            | 23020003.105200.31 | CWIP Co Labor-Plant            | 18,982.73           |
|                             |            | 23020003.105250.31 | CWIP Labor OH-Plant            | 10,849.03           |
|                             |            | 23020003.105260.21 | CWIP Overhead-Infrastr         | 12,678.55           |
|                             |            | 23020003.105260.31 | CWIP Overhead- Plant           | 58,854.63           |
|                             |            |                    | Additional Amounts at Closing: | 2,172.50            |
|                             |            | 23020003.105275.21 | CWIP Contr Svc-Infrastr        | 10,575.71           |
|                             |            | 23020003.105275.31 | CWIP Contr Svc-Plant           | 1,666,131.42        |
|                             |            |                    | Additional Amounts at Closing: | 28,855.02           |
|                             |            | 23020003.105280.31 | CWIP Retainage-Plant           | 168,698.05          |
|                             |            | 23020003.105350.31 | CWIP AFUDC Debt-Plant          | 40,143.29           |
|                             |            |                    | Additional Amounts at Closing: | 148.70              |
|                             |            | 23020003.105375.31 | CWIP AFUDC Eqty-Plant          | 74,380.33           |
|                             |            |                    | Additional Amounts at Closing: | 275.50              |
|                             |            | 23020003.105390.31 | CWIP Tran PY Chg-Plant         | (11,221.11)         |
|                             |            |                    | Total Additional at Closing    | 31,451.72           |
|                             |            |                    | Total for Project              | <u>2,081,566.95</u> |

Item Number 80007566

Skip to Account

ackrabbit/Inver Main-T&amp;D

From Date/Period

Through Date/Period

Ledger Type

Detail/Summary (D/S/O)

Units/Unit Cost (Y/A/B)

Subledger/Type(\*=All)

02/17/06

AA

D

N

\*

| D<br>P | Acct   | Account Description     | Incep to Date | Year to Date | Month to Date |
|--------|--------|-------------------------|---------------|--------------|---------------|
|        | 101000 | TD Mains Not Classified | 2,081,566.95  |              |               |
|        |        | Utility Plant in Servi  | 2,081,566.95  |              |               |
|        | 105150 | CWIP M & S-Plant        | 42.60         |              |               |
|        | 105200 | CWIP Co Labor-Plant     | 18,982.73     |              |               |
|        | 105250 | CWIP Labor OH-Plant     | 18,849.83     |              |               |
|        | 105260 | CWIP Overhead-Infrastr  | 12,678.55     |              |               |
|        | 105260 | CWIP Overhead-Plant     | 61,827.13     |              |               |
|        | 105275 | CWIP Contr Svc-Infrastr | 10,575.71     |              |               |
|        | 105275 | CWIP Contr Svc-Plant    | 1,694,986.44  |              |               |
|        | 105280 | CWIP Retainage-Plant    | 168,698.85    |              |               |
|        | 105350 | CWIP AFUDC Debt-Plant   | 40,291.99     |              |               |
|        | 105375 | CWIP AFUDC Eqty-Plant   | 74,655.83     |              |               |
|        | 105390 | CWIP Tran PY Chg-Plant  | 11,221.11-    |              |               |
|        | 105900 | CWIP Tran UPIS-Plant    | 2,081,566.95- |              |               |

Option: 1-Item Transaction Inquiry F4=Full Detail F24=More Keys

MW

Item Number 80007568  
 Skip to Account ackrabbit/Inver Main-T&D  
 From Date/Period             
 Through Date/Period 02/17/06  
 Ledger Type RA  
 Detail/Summary (D/S/O) D  
 Units/Unit Cost (Y/A/B) N  
 Subledger/Type(\*-All) \*

| Op | Acct   | Account Description     | Incep to Date | Year to Date | Month to Date |
|----|--------|-------------------------|---------------|--------------|---------------|
|    |        | Work In Progress        |               |              |               |
|    | 180105 | RD UPIS-AccDepr-Infrast | 4,059.06-     | 4,059.06-    |               |
|    |        | Depreciation Reserve    | 4,059.06-     | 4,059.06-    |               |
|    | 600110 | Depr Exp-General        | 4,059.06      | 4,059.06     |               |
|    |        |                         | 4,059.06      | 4,059.06     |               |
|    |        | Total . . . . .         | 2,001,566.95  |              |               |

WHEELER CONSTRUCTION, INC  
P O Box 5277  
1219 North 24th Street  
Phoenix, Arizona 85016-5277  
(602) 254-5178  
FAX (602) 254-1293

NAME Arizona American Water Company  
ADDRESS 19430 North 7th Street  
S No 2091  
Phone In. AZ 85304

PROJECT 15140 Jackrabbit & Inventory rd. Water Mtl Replacement

PROJECT 13140 Jackrabbit &amp; Invergordon Rd. Water Mtl Replacement

AMT  
81316.34

CONTRACTOR'S BILLING

**Received**  
SEP - 6 2005  
Shared Services Center

SEP - 6 2005

### **Shared Services Center**

INVOICE NO. 18607 12  
PAGE 1 OF 1  
DATE 08/31/2005  
PERIOD ENDING 08/31/2005  
P. PAGED BY

PAGE 1 OF 1

DATE 08/31/2008

PERIOD ENDING — 06/30/2005

P. Paden 44

18607-12  
8/31/05

Costs associated / delays caused by utility lines not shown

|                 |                     |
|-----------------|---------------------|
| <b>Subtotal</b> | <b>\$100,325.51</b> |
|-----------------|---------------------|

**Added warning about gun & knife use near 5th Place**

|          |            |
|----------|------------|
| Subtotal | 148 155 22 |
|----------|------------|

WHEELER CONSTRUCTION, INC  
P O Box 5277  
15110 North 26th Street  
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Received

SEP - 6 2005

Shared Services Center

CONTRACTOR'S BILL

INVOICE NO 18897 12

PAGE 1 OF 1

DATE 08/31/2005

PERIOD ENDING 08/31/2005

PE 10.00 00.00

NAME Arizona American Water Company  
ADDRESS 19820 North 79th Street  
Suite 201  
Phoenix, AZ 85024

PROJECT 89143 Jackrabolt & 1 rj rd on Rd Water Mtr Replacement

| ITEM                       | DESCRIPTION                                    | UNIT | PRICE         | CURRENT BILLING QUANTITY | AMOUNT         | BILLING-TO-DATE QUANTITY | AMOUNT        | % COMPLETE | BALANCE OF CONTRACT | PLANNED QUANTITY | SCHEDULE OF VALUES |
|----------------------------|--|------|---------------|--------------------------|----------------|--------------------------|---------------|------------|---------------------|------------------|--------------------|
| 1                          | Ch g Ord #3                                    |      |               |                          |                |                          |               |            |                     |                  |                    |
| 1                          | Material / Demolition                          | EA   | \$7 500.00    | 30.00                    | \$7 500.00     | 2.00                     | \$15 000.00   | 100.00%    | \$0.00              | 2                | \$15 000.00        |
| 2                          | Construction Survey                            | LS   | \$6 900.00    | 30.00                    | \$6 900.00     | 1.00                     | \$6 900.00    | 100.00%    | \$0.00              | 1                | \$6 900.00         |
| 3                          | Compaction Test g                              | LS   | \$7 200.00    | 30.00                    | \$7 200.00     | 1.00                     | \$7 200.00    | 100.00%    | \$0.00              | 1                | \$7 200.00         |
| 4                          | 1" allc corr'd device (allowance)              | LS   | \$20 000.00   | 30.00                    | \$20 000.00    | 0.75                     | \$15 000.00   | 75.00%     | \$5 000.00          | 1                | \$20 000.00        |
| 5                          | Police officer / Certified Fl gman (allowance) | HR   | \$58.00       | 30.00                    | \$58.00        | 50.00                    | \$2 900.00    | 50.00%     | \$2 900.00          | 100              | \$5 800.00         |
| 6                          | Polished curb g all bas before survey          | LS   | \$5 500.00    | 30.00                    | \$5 500.00     | 1.00                     | \$5 500.00    | 100.00%    | \$0.00              | 1                | \$5 500.00         |
| 7                          | 16" PC350 Restraint ed joint ductile iron pipe | LF   | \$126.00      | 30.00                    | \$3 780.00     | 2 438.00                 | \$307 188.00  | 100.00%    | \$0.00              | 2438             | \$307 188.00       |
| 8                          | Storm Material (Pipe, Valves, Fittings)        | LF   | \$26 400.00   | 30.00                    | \$7 920.00     | 0.00                     | \$0.00        | ERR        | \$0.00              | 0                | \$0.00             |
| 9                          | 16" Vertical ed gment                          | EA   | \$4 800.00    | 30.00                    | \$1 440.00     | 3.00                     | \$14 400.00   | 100.00%    | \$0.00              | 3                | \$14 400.00        |
| 10                         | 16" Vertical raily mnt                         | EA   | \$2 500.00    | 30.00                    | \$750.00       | 1.00                     | \$2 500.00    | 100.00%    | \$0.00              | 1                | \$2 500.00         |
| 11                         | 16" Vertical raily mnt                         | EA   | \$2 100.00    | 30.00                    | \$630.00       | 1.00                     | \$2 100.00    | 100.00%    | \$0.00              | 1                | \$2 100.00         |
| 12                         | Remove 16" cap & con ed to existing m          | EA   | \$500.00      | 30.00                    | \$15 000.00    | 1.00                     | \$500.00      | 100.00%    | \$0.00              | 1                | \$500.00           |
| 13                         | 30" 16" Jacked steel bar g                     | LF   | \$720.00      | 30.00                    | \$21 600.00    | 65.00                    | \$46 800.00   | 100.00%    | \$0.00              | 65               | \$46 800.00        |
| 14                         | 16" PC350 Restraint ed joint ductile iron pipe | LF   | \$145.00      | 30.00                    | \$4 350.00     | 85                       | \$9 425.00    | 100.00%    | \$0.00              | 85               | \$9 425.00         |
| 15                         | 16" PC350 Restraint ed joint ductile iron pipe | LF   | \$132.00      | 30.00                    | \$3 960.00     | 72                       | \$9 504.00    | 100.00%    | \$0.00              | 72               | \$9 504.00         |
| 16                         | 16" Gate valve and by-pass complete            | EA   | \$10 450.00   | 30.00                    | \$31 350.00    | 5.00                     | \$52 250.00   | 100.00%    | \$0.00              | 5                | \$52 250.00        |
| 17                         | 16" Gate Valve with box and cover              | EA   | \$775.00      | 30.00                    | \$23 250.00    | 2                        | \$1 550.00    | 100.00%    | \$0.00              | 2                | \$1 550.00         |
| 18                         | 16" 16" TS shw box & cover                     | EA   | \$2 775.00    | 30.00                    | \$83 250.00    | 1                        | \$2 775.00    | 100.00%    | \$0.00              | 1                | \$2 775.00         |
| 19                         | 6" x 6" TS shw box & cover                     | EA   | \$2 350.00    | 30.00                    | \$70 500.00    | 2                        | \$4 700.00    | 100.00%    | \$0.00              | 2                | \$4 700.00         |
| 20                         | 2" Water service replacement                   | EA   | \$1 000.00    | 30.00                    | \$30 000.00    | 5                        | \$5 000.00    | 100.00%    | \$0.00              | 5                | \$5 000.00         |
| 21                         | 6" fire hydrant complete on bypass assembly    | EA   | \$4 200.00    | 30.00                    | \$12 600.00    | 4.00                     | \$16 800.00   | 100.00%    | \$0.00              | 4                | \$16 800.00        |
| 22                         | Cut out and plug sewer man                     | EA   | \$2 700.00    | 30.00                    | \$8 100.00     | 3.00                     | \$8 100.00    | 75.00%     | \$2 700.00          | 4                | \$10 800.00        |
| 23                         | 16" 2" AAWC 300-1 blowall                      | EA   | \$825.00      | 30.00                    | \$24 750.00    | 1.00                     | \$825.00      | 100.00%    | \$0.00              | 1                | \$825.00           |
| 24                         | Remove existing shw box backdr / ABC           | EA   | \$250.00      | 30.00                    | \$7 500.00     | 10                       | \$2 500.00    | 100.00%    | \$0.00              | 10               | \$2 500.00         |
| 25                         | Remove shw box fire hydrant & cable go         | EA   | \$400.00      | 30.00                    | \$12 000.00    | 1                        | \$400.00      | 100.00%    | \$0.00              | 1                | \$400.00           |
| 26                         | Temporary pavement replacement 3" C-30 ML      | SY   | \$24.00       | 30.00                    | \$720.00       | 2 460.00                 | \$57 600.00   | 100.00%    | \$0.00              | 2460             | \$57 600.00        |
| 27                         | Adjust new w line shw to grad                  | EA   | \$310.00      | 30.00                    | \$9 300.00     | 0.00                     | \$2 480.00    | 100.00%    | \$0.00              | 0                | \$2 480.00         |
| 28                         | Encase 16" shw m MAG 404-1 & 404-2             | LF   | \$95.00       | 30.00                    | \$2 850.00     | 20.00                    | \$1 900.00    | 100.00%    | \$0.00              | 20               | \$1 900.00         |
| 29                         | Encase 12" VCP Sewer MAG 404-1 & 404-2         | LF   | \$48.00       | 30.00                    | \$1 440.00     | 20.00                    | \$960.00      | 100.00%    | \$0.00              | 20               | \$960.00           |
| 30                         | Remove & Replace Curb                          | LF   | \$70.00       | 30.00                    | \$2 100.00     | 60.00                    | \$1 200.00    | 100.00%    | \$0.00              | 60               | \$1 200.00         |
| 31                         | Remove & Replace Sidewalk                      | SF   | \$9.50        | 30.00                    | \$2 850.00     | 300.00                   | \$3 705.00    | 100.00%    | \$0.00              | 350              | \$3 705.00         |
| 32                         | St my Seal McDonald 10 Drive                   | SY   | \$2.85        | 30.00                    | \$85.50        | 2 475.00                 | \$6 558.75    | 100.00%    | \$0.00              | 2475             | \$6 558.75         |
| 33                         | Strip g & Misting (except McDonald Drive)      | LS   | \$750.00      | 30.00                    | \$22 500.00    | 1.00                     | \$750.00      | 100.00%    | \$0.00              | 1                | \$750.00           |
| 34                         | Contractor Bond                                | LS   | \$5 673.35    | 30.00                    | \$16 919.55    | 1.00                     | \$5 673.35    | 100.00%    | \$0.00              | 1                | \$5 673.35         |
| 35                         | Sales Tax                                      | LS   | \$32 750.07   | 30.00                    | \$98 250.21    | 98.33%                   | \$32 242.31   | 98.33%     | \$247.76            | 1                | \$32 750.07        |
|                            |  |      |               |                          |                |                          |               |            |                     | Subtotal         | \$987 334.17       |
|                            |  |      |               |                          |                |                          |               |            |                     |                  |                    |
| Change Order #4 Revised    |  |      |               |                          |                |                          |               |            |                     |                  |                    |
| 1                          | Total cost for SSC                             | LS   | \$65 637.08   | 30.00                    | \$196 911.24   | 1                        | \$65 637.08   | 100.00%    | \$0.00              | 1                | \$65 637.08        |
| 2                          | Credit for item #12 in CO #3                   | LS   | (\$46 800.00) | 30.00                    | (\$140 400.00) | 1                        | (\$46 800.00) | 100.00%    | \$0.00              | 1                | (\$46 800.00)      |
| 3                          | Bond   | LS   | \$200.20      | 30.00                    | \$600.60       | 1                        | \$200.20      | 100.00%    | \$0.00              | 1                | \$200.20           |
| 4                          | Sales Tax                                      | LS   | \$383.84      | 30.00                    | \$1 151.52     | 1                        | \$383.84      | 100.00%    | \$0.00              | 1                | \$383.84           |
|                            |  |      |               |                          |                |                          |               |            |                     | Subtotal         | \$79 821.54        |
|                            |  |      |               |                          |                |                          |               |            |                     |                  |                    |
| Change Order #4 Difference |  |      |               |                          |                |                          |               |            |                     |                  |                    |
| 1                          | Ded ct for actual cost for SSC                 | LS   | (\$2 863.50)  | 1                        | (\$2 863.50)   | 1                        | (\$2 863.50)  | 100.00%    | \$0.00              | 1                | (\$2 863.50)       |
| 2                          | Ded ct for actual cost for bond                | LS   | (\$31 711.11) | 1                        | (\$31 711.11)  | 1                        | (\$31 711.11) | 100.00%    | \$0.00              | 1                | (\$31 711.11)      |
| 3                          | Ded ct for actual cost for sales tax           | LS   | (\$155.82)    | 1                        | (\$155.82)     | 1                        | (\$155.82)    | 100.00%    | \$0.00              | 1                | (\$155.82)         |
|                            |  |      |               |                          |                |                          |               |            |                     | Subtotal         | (\$34 730.43)      |
|                            |  |      |               |                          |                |                          |               |            |                     |                  |                    |
| Change Order #5            |  |      |               |                          |                |                          |               |            |                     |                  |                    |
| 1                          | Barcodes & Police Officer                      | LS   | \$94 209.38   | 30.00                    | \$282 628.14   | 1                        | \$94 209.38   | 100.00%    | \$0.00              | 1                | \$94 209.38        |
| 2                          | Allowance Bldg CO #1 & #2                      | LS   | (\$60 000.00) | 30.00                    | (\$180 000.00) | 1                        | (\$60 000.00) | 100.00%    | \$0.00              | 1                | (\$60 000.00)      |
| 3                          | Sales Tax                                      | LS   | \$1 220.13    | 30.00                    | \$3 660.39     | 1                        | \$1 220.13    | 100.00%    | \$0.00              | 1                | \$1 220.13         |
|                            |  |      |               |                          |                |                          |               |            |                     | Subtotal         | \$24 829.51        |
|                            |  |      |               |                          |                |                          |               |            |                     |                  |                    |
| Change Order #5 Difference |  |      |               |                          |                |                          |               |            |                     |                  |                    |
| 1                          | Add actual cost of Barcodes & Police Officer   | LS   | \$3 827.70    | 1                        | \$3 827.70     | 1                        | \$3 827.70    | 100.00%    | \$0.00              | 1                | \$3 827.70         |
| 2                          | Sales Tax                                      | LS   | \$197.82      | 1                        | \$197.82       | 1                        | \$197.82      | 100.00%    | \$0.00              | 1                | \$197.82           |
|                            |  |      |               |                          |                |                          |               |            |                     | Subtotal         | \$4 025.52         |
|                            |  |      |               |                          |                |                          |               |            |                     |                  |                    |
| Change Order #6            |  |      |               |                          |                |                          |               |            |                     |                  |                    |
| 1                          | Add actual cost for F hydrant                  | LS   | \$2 877.70    | 30.00                    | \$86 331.10    | 1                        | \$2 877.70    | 100.00%    | \$0.00              | 1                | \$2 877.70         |
| 2                          | Bond   | LS   | \$30.58       | 30.00                    | \$917.40       | 1                        | \$30.58       | 100.00%    | \$0.00              | 1                | \$30.58            |
| 3                          | Sales Tax                                      | LS   | \$150.38      | 30.00                    | \$451.14       | 1                        | \$150.38      | 100.00%    | \$0.00              | 1                | \$150.38           |
|                            |  |      |               |                          |                |                          |               |            |                     | Subtotal         | \$3 058.62         |



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Received

SEP - 6 2005

Shared Service Center

CONTRACTOR'S BILLING

INVOICE NO 18607 12

PAGE 1 OF 1

DATE 08/31/2005

PERIOD ENDING 08/31/2005

PREPARED BY Ashley J PHL

NAME Arizona American Water Company  
ADDRESS 19420 North 7th Street  
Suite 201  
Phoenix, AZ 85024

PROJECT 85140 Jackrabbit & Irving rdn Rd Water Mtl Replacement

| ITEM                                      | DESCRIPTION                                     | UNIT | PRICE         | CURRENT BILLING QUANTITY | AMOUNT        | BILLING-TO-DATE QUANTITY | AMOUNT           | % COMPLETE | BALANCE OF CONTRACT | PLANNED QUANTITY | SCHEDULE OF VALUES |
|---|---|------|---------------|--------------------------|---------------|--------------------------|------------------|------------|---------------------|------------------|--------------------|
| Change Order #7                           |   |      |               |                          |               |                          |                  |            |                     |                  |                    |
| 1   | Total Cost for Bore Drilling                    | LS   | \$24,891.36   |                          | \$0.00        | 1                        | \$24,891.36      | 100.00%    | \$0.00              | 1                | \$24,891.36        |
|   | Bond  | LS   | \$262.43      |                          | \$0.00        | 1                        | \$262.43         | 100.00%    | \$0.00              | 1                | \$262.43           |
|   | Sales Tax                                       | LS   | \$1,289.64    |                          | \$0.00        | 1                        | \$1,289.64       | 100.00%    | \$0.00              | 1                | \$1,289.64         |
|   |   |      |               |                          |               |                          |                  |            |                     |                  | Subtotal           |
|   |   |      |               |                          |               |                          |                  |            |                     |                  | \$26,443.43        |
| Change Order #7 Diff Prices               |   |      |               |                          |               |                          |                  |            |                     |                  |                    |
| 1   | Deduct for actual cost for Bore Drilling        | LS   | (\$3,810.88)  | 1                        | (\$3,810.88)  | 1                        | (\$3,810.88)     | 100.00%    | \$0.00              | 1                | (\$3,810.88)       |
|   | Bond  | LS   | (\$46.11)     | 1                        | (\$46.11)     | 1                        | (\$46.11)        | 100.00%    | \$0.00              | 1                | (\$46.11)          |
|   | Sales Tax                                       | LS   | (\$199.04)    | 1                        | (\$199.04)    | 1                        | (\$199.04)       | 100.00%    | \$0.00              | 1                | (\$199.04)         |
|   |   |      |               |                          |               |                          |                  |            |                     |                  | Subtotal           |
|   |   |      |               |                          |               |                          |                  |            |                     |                  | (\$4,056.03)       |
| Change Order #8                           |   |      |               |                          |               |                          |                  |            |                     |                  |                    |
| 1   | Bore Drilling 1 Air/Relief Valve @ Marston      | LS   | \$2,870.44    | 1                        | \$2,870.44    | 1                        | \$2,870.44       | 100.00%    | \$0.00              | 1                | \$2,870.44         |
| 2   | Additional Depth of Marston @ 29'-CA & 24'-20   | LS   | \$6,232.41    | 1                        | \$6,232.41    | 1                        | \$6,232.41       | 100.00%    | \$0.00              | 1                | \$6,232.41         |
| 3   | Rock Excavation @ Station 29+81                 | LS   | \$7,205.44    | 1                        | \$7,205.44    | 1                        | \$7,205.44       | 100.00%    | \$0.00              | 1                | \$7,205.44         |
| 4   | Relocate Blow Off Assembly @ 44th St            | LS   | \$2,629.53    | 1                        | \$2,629.53    | 1                        | \$2,629.53       | 100.00%    | \$0.00              | 1                | \$2,629.53         |
| 5   | Rock Excavation @ 16 Mi. rdn Station 12+00 West | LS   | \$20,037.45   | 1                        | \$20,037.45   | 1                        | \$20,037.45      | 100.00%    | \$0.00              | 1                | \$20,037.45        |
| 6   | EC Excavating CA1 330 Hammer Rental             | LS   | \$7,950.00    | 1                        | \$7,950.00    | 1                        | \$7,950.00       | 100.00%    | \$0.00              | 1                | \$7,950.00         |
| 7   | Bore Drilling Perform Testing Services          | LS   | \$752.33      | 1                        | \$752.33      | 1                        | \$752.33         | 100.00%    | \$0.00              | 1                | \$752.33           |
| 8   | 5% Markup on Subcontractors                     | LS   | \$2,383.88    | 1                        | \$2,383.88    | 1                        | \$2,383.88       | 100.00%    | \$0.00              | 1                | \$2,383.88         |
|   | Bond  | LS   | \$532.05      | 1                        | \$532.05      | 1                        | \$532.05         | 100.00%    | \$0.00              | 1                | \$532.05           |
|   | Sales Tax                                       | LS   | \$2,614.67    | 1                        | \$2,614.67    | 1                        | \$2,614.67       | 100.00%    | \$0.00              | 1                | \$2,614.67         |
|   |   |      |               |                          |               |                          |                  |            |                     |                  | Subtotal           |
|   |   |      |               |                          |               |                          |                  |            |                     |                  | \$33,298.29        |
| Change Order #9                           |   |      |               |                          |               |                          |                  |            |                     |                  |                    |
| 1   | 16" PCCSO Restr. and Joint DIP                  | LF   | \$125.00      | 5                        | \$630.00      | 5                        | \$630.00         | 100.00%    | \$0.00              | 5                | \$630.00           |
| 2   | Pavement Replacement                            | SY   | \$24.00       | 132                      | \$3,168.00    | 132                      | \$3,168.00       | 100.00%    | \$0.00              | 132              | \$3,168.00         |
| 3   | Adjust Valves to Finish Grade                   | EA   | \$310.00      | 0                        | \$0.00        | 0                        | \$0.00           | 0.00%      | \$0.00              | 0                | \$0.00             |
| 4   | Excavate 16" Water Main MAG 404-1M04-2          | LF   | \$56.00       | 56                       | \$3,136.00    | 56                       | \$3,136.00       | 100.00%    | \$0.00              | 56               | \$3,136.00         |
| 5   | Excavate 12" YCP Sewer MAG 404-1M04-2           | LF   | \$48.00       | 36                       | \$1,728.00    | 36                       | \$1,728.00       | 100.00%    | \$0.00              | 36               | \$1,728.00         |
| 6   | Remove & Replace Curb                           | LF   | \$29.00       | 140                      | \$4,060.00    | 140                      | \$4,060.00       | 100.00%    | \$0.00              | 140              | \$4,060.00         |
| 7   | Remove & Replace Slo. Dip Ramp                  | SF   | \$9.50        | 287                      | \$2,726.50    | 287                      | \$2,726.50       | 100.00%    | \$0.00              | 287              | \$2,726.50         |
|   | Bond  | LS   | \$150.80      | 1                        | \$150.80      | 1                        | \$150.80         | 100.00%    | \$0.00              | 1                | \$150.80           |
|   | Sales Tax                                       | LS   | \$741.05      | 1                        | \$741.05      | 1                        | \$741.05         | 100.00%    | \$0.00              | 1                | \$741.05           |
|   |   |      |               |                          |               |                          |                  |            |                     |                  | Subtotal           |
|   |   |      |               |                          |               |                          |                  |            |                     |                  | \$15,880.35        |
| Change Order #10                          |   |      |               |                          |               |                          |                  |            |                     |                  |                    |
| 1   | Barrettes & Police Officer                      | LS   | \$19,051.36   | 1                        | \$19,051.36   | 1                        | \$19,051.36      | 100.00%    | \$0.00              | 1                | \$19,051.36        |
| 2   | Allowance Billed in original contract           | LS   | (\$17,900.00) | 1                        | (\$17,900.00) | 1                        | (\$17,900.00)    | 100.00%    | \$0.00              | 1                | (\$17,900.00)      |
|   | Bond  | LS   | \$12.24       | 1                        | \$12.24       | 1                        | \$12.24          | 100.00%    | \$0.00              | 1                | \$12.24            |
|   | Sales Tax                                       | LS   | \$89.13       | 1                        | \$89.13       | 1                        | \$89.13          | 100.00%    | \$0.00              | 1                | \$89.13            |
|   |   |      |               |                          |               |                          |                  |            |                     |                  | Subtotal           |
|   |   |      |               |                          |               |                          |                  |            |                     |                  | \$1,223.73         |
| REMARKS Retention held on Change Order #8 |   |      |               |                          |               |                          |                  |            |                     |                  |                    |
|   |   |      |               | Total Invoice            | \$81,316.34   |                          | \$2,543,791.74   |            | \$11,147.73         |                  | \$2,554,939.50     |
|   |   |      |               | Retention                | 10.00%        | \$8,131.63               | (\$5,000.00)     |            |                     |                  |                    |
|   |   |      |               | Net Invoice              | \$81,316.34   |                          | \$2,538,791.74   |            |                     |                  | % COMPLETE         |
|   |   |      |               | Less Prior Billings      |               |                          | (\$2,457,475.40) |            |                     |                  | 90.38%             |
|   |   |      |               | Balance Due              | \$81,316.34   |                          | \$81,316.34      |            |                     |                  |                    |
|   |   |      |               | Misc. Charges/Credits    | \$0.00        |                          | \$0.00           |            |                     |                  |                    |
|   |   |      |               | AMOUNT DUE THIS INVOICE  | \$81,316.34   |                          | \$81,316.34      |            |                     |                  |                    |

Wheeler Construction, Inc  
1310 N 24th Street  
Phoenix, Arizona 85008  
Phone 602-254-3179 Fax 602 254-1293

**CONDITIONAL-WAIVER-AND RELEASE ON PROGRESS PAYMENT**

(Pursuant to A R S 33 1008)

Project **Jackrabbit & Invergordon Rd Water Main Replacement**  
Job No **85143**



On receipt by the undersigned of a check from Arizona American Water Company in the sum of **\*\*\$81,316 34\*\*** payable to Wheeler Construction, Inc and when the check has been properly endorsed and has been paid by the bank on which it is drawn this document becomes effective to release any Mechanic's Lien any state or federal statutory bond right any private bond right any claim for payment and any rights under any similar ordinance rule or statue related to claim or payment rights for persons in the undersigned's position that the undersigned has on the job of **Arizona American Water Company** located at **Jackrabbit & Invergordon** to the following extent This release covers a progress payment for all labor and materials through **08/31/05** only and does not cover any retention pending modifications and changes or items furnished after that date

Before any recipient of this document relies on it that person should verify evidence of payment to the undersigned

The undersigned warrants that he either has already paid or will use the monies he receives from this progress payment to promptly pay in full all of his laborers subcontractors matenalmen and suppliers for all work materials, equipment or services provided for or to the above referenced project up to the date of this waiver The following invoices and pay applications are included in the above referenced amount **Invoice #18607-12**

Date **September 2, 2005**

**WHEELER CONSTRUCTION, INC**

By   
Judy L Eldridge CFO/Treasurer

ARIZONA AMERICAN WATER  
PARADISE VALLEY OPERATING DISTRICT  
PUBLIC SAFETY SURCHARGE (PSS)

Summary of Public Safety/Fire Flow Task Orders Completed Since Jan. 1, 2005

| Project                 | Work Order | Account No.        | Description                                 | Amount            |
|-------------------------|------------|--------------------|---|-------------------|
| McDonald Main Extension | 50076718   | 23020501.105200.21 | CWIP Co Labor-Infrastr                      | 5,500.78          |
|                         |            | 23020501.105250.21 | CWIP labor OH-Infrastr                      | 3,947.90          |
|                         |            | 23020501.105260.21 | CWIP Overhead-Infrastr                      | 22,020.99         |
|                         |            |                    | Additional Amounts at Closing:              | 5,103.45          |
|                         |            | 23020501.105275.21 | CWIP Contr Svc-Infrastr                     | 314,155.57        |
|                         |            |                    | Additional Amounts at Closing:              | 68,609.08         |
|                         |            | 23020501.105275.31 | CWIP Contr Svc-Plant                        | 392,041.09        |
|                         |            | 23020501.105350.21 | CWIP AFUDC Debt-Infrastr                    | 3,471.38          |
|                         |            | 23020501.105375.21 | CWIP AFUDC Eqty-Infrastr                    | 6,432.76          |
|                         |            |                    | Total Additional at Closing                 | 73,712.53         |
|                         |            |                    | Total for Project                           | <u>821,283.00</u> |
|                         |            |                    | Total Additional at Closing (both projects) | <u>105,164.25</u> |

Item Number 20101100

Skip to Account

cDonald Main Extension-T&amp;D MA

From Date/Period

Through Date/Period

Ledger Type

Detail/Summary (D/S/O)

Units/Unit Cost (Y/A/B)

Subledger/Type(\*-All)

02/17/06

AA

D

N

\*

| D<br>P | Acct   | Account Description     | Incep to Date | Year to Date | Month to Date |
|--------|--------|-------------------------|---------------|--------------|---------------|
|        | 101000 | TD Mains Not Classified | 821,283.00    | 16,147.76    |               |
|        |        | Utility Plant in Servi  | 821,283.00    | 16,147.76    |               |
|        | 105200 | CWIP Co Labor-Infrastr  | 5,500.78      |              |               |
|        | 105250 | CWIP Labor OH-Infrastr  | 3,947.90      |              |               |
|        | 105260 | CWIP Overhead-Infrastr  | 27,124.44     |              |               |
|        | 105275 | CWIP Contr Svc-Infrastr | 382,764.65    | 16,147.76    |               |
|        | 105275 | CWIP Contr Svc-Plant    | 392,041.09    |              |               |
|        | 105350 | CWIP AFUDC Debt-Infrast | 3,471.38      |              |               |
|        | 105375 | CWIP AFUDC Eqty-Infrast | 6,432.76      |              |               |
|        | 105900 | CWIP Tran UPIS-Infrastr | 821,283.00    | 16,147.76    |               |
|        |        | Work In Progress        |               |              |               |
|        | 100105 | AD UPIS-AccDepr-Infrast | 1,601.50      | 1,601.50     |               |
|        |        | Depreciation Reserve    | 1,601.50      | 1,601.50     |               |
|        | 600110 | Depr Exp-General        | 1,601.50      | 1,601.50     |               |

Option: Y-Item Transaction Inquiry F4-Full Detail F24-More Keys

MW

Item Number 80101100 From Date/Period 02/17/06  
 Skip to Account                      Through Date/Period                       
 cDonald Main Extension-T&D MR Ledger Type RR  
 Detail/Summary (D/S/O) D  
 Units/Unit Cost (Y/A/B) N  
 Subledger/Type(\*=All) \*

| OP | Acct | Account Description | Incep to Date          | Year to Date          | Month to Date |
|----|------|---------------------|------------------------|-----------------------|---------------|
|    |      | Total . . . . .     | 1,681.58<br>821,283.88 | 1,681.58<br>16,147.76 |               |

WHEELER CONSTRUCTION, INC  
P.O. Box 5277  
5511 North 14th Street  
Phoenix, Arizona 85018-5277  
(602) 254-3779  
FAX (602) 254-1283

NAME Arizona Ave. Clean Water Company  
ADDRESS 10620 North 7th Street  
S. No 201  
Phoenix, AZ 85004

PROJECT B3140 Jackrabbits &amp; Invertebrates of the Water Hole Reservoir

AmT  
81316.34

**CONTRACTOR'S BILLING**

**Received**  
SEP - 6 2005  
Shared Services Center

**Received**  
SEP - 6 2005  
Shared Services Center

**Received**  
SEP - 6 2005  
Shared Services Center

50120799  
ALLW  
A23SPEC07

INVOICE NO. 12607 12

PAGE 1 OF 1

DATE 08/31/2005

PERIOD ENDING — 06/30/2005

**DECLASSIFIED** **4** **2**

NY#

18607-12

8/31/05

| ITEM | DESCRIPTION   | UNIT | PRICE       | - CURRENT BILLING - |             | - BILLING-TO-DATE - |           | %             | BALANCE OF CONTRACT | PLANNED QUANTITY | SCHEDULE OF VALUES |                |              |
|------|---|------|-------------|---------------------|-------------|---------------------|-----------|---------------|---------------------|------------------|--------------------|----------------|--------------|
|      |   |      |             | QUANTITY            | AMOUNT      | QUANTITY            | AMOUNT    |               |                     |                  |                    |                |              |
| 1    | Mobilization / Demobilization   | EA   | \$12 500.00 | 0.00                |             | 1                   | 2.00      | \$25 000.00   | 100.00%             | 30.00            | 2                  | \$25 000.00    |              |
| 2    | Sewer, remove, replace AC pavement  | SY   | \$25.00     | 0.00                |             | 1                   | 2 902.00  | \$72 550.00   | 100.00%             | 30.00            | 2502               | \$72 550.00    |              |
| 3    | 24" DP & Manhole  | LF   | \$156.40    | 0.00                |             | 1                   | 1 435.00  | \$224 434.00  | 100.00%             | 30.00            | 1435               | \$224 434.00   |              |
| 4    | 20" DP & Manhole  | LF   | \$175.00    | 0.00                |             | 1                   | 46.00     | \$8 050.00    | 100.00%             | 30.00            | 46                 | \$8 050.00     |              |
| 5    | 16" DP & Manhole  | LF   | \$107.50    | 0.00                |             | 1                   | 6 565.00  | \$705 737.50  | 100.00%             | 30.00            | 6565               | \$705 737.50   |              |
| 6    | 12" DP & Manhole  | LF   | \$185.00    | 0.00                |             | 1                   | 191.00    | \$35 185.00   | 100.00%             | 30.00            | 191                | \$35 185.00    |              |
| 7    | 8" DP & Manhole   | LF   | \$378.00    | 0.00                |             | 1                   | 19.00     | \$7 182.00    | 100.00%             | 30.00            | 19                 | \$7 182.00     |              |
| 8    | 6" DP & Manhole   | LF   | \$129.00    | 0.00                |             | 1                   | 288.00    | \$37 152.00   | 100.00%             | 30.00            | 288                | \$37 152.00    |              |
| 9    | 24" BF, size of 6" bypass complete  | EA   | \$12 500.00 | 0.00                |             | 1                   | 2.00      | \$25 000.00   | 100.00%             | 30.00            | 2                  | \$25 000.00    |              |
| 10   | 20" BF, size of 6" bypass complete  | EA   | \$12 500.00 | 0.00                |             | 1                   | 1.00      | \$12 500.00   | 100.00%             | 30.00            | 1                  | \$12 500.00    |              |
| 11   | 16" Gate valve of 16" bypass complete                                       | EA   | \$9 875.00  | 0.00                |             | 1                   | 12.00     | \$118 500.00  | 100.00%             | 30.00            | 12                 | \$118 500.00   |              |
| 12   | 16" 16" TS, size 16" & cover  | EA   | \$9 300.00  | 0.00                |             | 1                   | 1.00      | \$9 300.00    | 100.00%             | 30.00            | 1                  | \$9 300.00     |              |
| 13   | 12" 12" TS, size 12" & cover  | EA   | \$4 300.00  | 0.00                |             | 1                   | 2.00      | \$8 600.00    | 100.00%             | 30.00            | 2                  | \$8 600.00     |              |
| 14   | 8" 8" TS, valve box & cover   | EA   | \$2 550.00  | 0.00                |             | 1                   | 1.00      | \$2 550.00    | 100.00%             | 30.00            | 1                  | \$2 550.00     |              |
| 15   | 6" 6" TS, valve box & cover   | EA   | \$2 100.00  | 0.00                |             | 1                   | 9.00      | \$18 900.00   | 100.00%             | 30.00            | 9                  | \$18 900.00    |              |
| 16   | 4" 4" TS, valve box & cover   | EA   | \$2 050.00  | 0.00                |             | 1                   | 7.00      | \$14 350.00   | 100.00%             | 30.00            | 7                  | \$14 350.00    |              |
| 17   | 24" tapped cap and 2" IP corp   | EA   | \$1 250.00  | 0.00                |             | 1                   | 1.00      | \$1 250.00    | 100.00%             | 30.00            | 1                  | \$1 250.00     |              |
| 18   | 20" tapped cap and 2" IP corp   | EA   | \$1 125.00  | 0.00                |             | 1                   | 1.00      | \$1 125.00    | 100.00%             | 30.00            | 1                  | \$1 125.00     |              |
| 19   | 16" tapped cap and 2" IP corp   | EA   | \$800.00    | 0.00                |             | 1                   | 1.00      | \$800.00      | 100.00%             | 30.00            | 1                  | \$800.00       |              |
| 20   | 6" live hole and w/ 6" VMEC   | EA   | \$3 900.00  | 0.00                |             | 1                   | 21.00     | \$81 900.00   | 100.00%             | 30.00            | 21                 | \$81 900.00    |              |
| 21   | Cut out and plug, steel man   | EA   | \$2 250.00  | 0.00                |             | 1                   | 20.00     | \$45 000.00   | 100.00%             | 30.00            | 20                 | \$45 000.00    |              |
| 22   | Water valve removed   | EA   | \$250.00    | 0.00                |             | 1                   | 22.00     | \$5 500.00    | 100.00%             | 30.00            | 22                 | \$5 500.00     |              |
| 23   | 1 water service man to water  | EA   | \$700.00    | 0.00                |             | 1                   | 28.00     | \$19 600.00   | 100.00%             | 30.00            | 28                 | \$19 600.00    |              |
| 24   | Pavement marking, 4 double yellow paint                                     | LF   | \$0.25      | 0.00                |             | 1                   | 6 700.00  | \$1 675.00    | 100.00%             | 30.00            | 6700               | \$1 675.00     |              |
| 25   | Pavement marking, 8 solid white paint                                       | LF   | \$0.65      | 0.00                |             | 1                   | 260.00    | \$169.00      | 100.00%             | 30.00            | 260                | \$169.00       |              |
| 26   | Pavement marking, 12" solid white paint                                     | LF   | \$2.50      | 0.00                |             | 1                   | 644.00    | \$1 610.00    | 100.00%             | 30.00            | 644                | \$1 610.00     |              |
| 27   | Asphalt slurry seal   | SY   | \$1.35      | 0.00                |             | 1                   | 29 633.00 | \$40 004.55   | 100.00%             | 30.00            | 29633              | \$40 004.55    |              |
| 28   | 1 aff. control  | LS   | \$18 000.00 | 0.00                |             | 1                   | 1.00      | \$18 000.00   | 100.00%             | 30.00            | 1                  | \$18 000.00    |              |
| 29   | 1 aff. office   | LS   | \$7 600.00  | 0.00                |             | 1                   | 1.00      | \$7 600.00    | 100.00%             | 30.00            | 1                  | \$7 600.00     |              |
|      |   |      |             |                     |             | 1                   |           |               |                     |                  |                    | \$1 537 853.00 |              |
|      | Change Order #1   |      |             |                     |             | 1                   |           |               |                     |                  |                    |                |              |
|      | Costs associated / delays caused by utility lines not shown on plans        | NR   | \$1 114.03  |                     | 30.00       | 1                   | 78        | \$26 894.34   | 100.00%             | 30.00            | 78                 | \$26 894.34    |              |
| 1    | Credit to deleted 1 water services  | EA   | \$700.00    |                     | 30.00       | 1                   | -6        | (\$3 500.00)  | 100.00%             | 30.00            | -6                 | (\$3 500.00)   |              |
| 2    | Additional cost to increase service sizes to 2"                             | EA   | \$1 308.84  |                     | 30.00       | 1                   | 4         | \$5 495.56    | 100.00%             | 30.00            | 4                  | \$5 495.56     |              |
| 2b   | Additional cost to increase service sizes to 4"                             | EA   | \$3 625.78  |                     | 30.00       | 1                   | 1         | \$3 625.78    | 100.00%             | 30.00            | 1                  | \$3 625.78     |              |
| 3    | Costs to relocate sewer services  | EA   | \$476.35    |                     | 30.00       | 1                   | 3         | \$1 429.05    | 100.00%             | 30.00            | 3                  | \$1 429.05     |              |
| 4    | Add total 16" ductile iron pipe due to changes                              | LF   | \$107.50    |                     | 30.00       | 1                   | 33        | \$3 547.50    | 100.00%             | 30.00            | 33                 | \$3 547.50     |              |
| 4a   | Credit for 16" bypasses not installed                                       | EA   | \$5 675.00  |                     | 30.00       | 1                   | -2        | (\$10 350.00) | 100.00%             | 30.00            | -2                 | (\$10 350.00)  |              |
| 4b   | Credit for 16" 16" tapping sleeves and valves                               | EA   | \$9 300.00  |                     | 30.00       | 1                   | 1         | (\$9 300.00)  | 100.00%             | 30.00            | 1                  | (\$9 300.00)   |              |
| 5a   | Costs associated with McDonald / Invergowrie                                | LS   | \$10 580.39 |                     | 30.00       | 1                   | 1         | \$10 580.39   | 100.00%             | 30.00            | 1                  | \$10 580.39    |              |
| 6    | Scottishwater Jackrabbits rail & overlay pavement                           | LS   | \$37 040.80 |                     | 30.00       | 1                   | 1         | \$37 040.80   | 100.00%             | 30.00            | 1                  | \$37 040.80    |              |
| 7    | Replace concrete apron & with ME corner                                     | LS   | \$2 600.00  |                     | 30.00       | 1                   | 1         | \$2 600.00    | 100.00%             | 30.00            | 1                  | \$2 600.00     |              |
| 8    | Added pavement replacement due to alignment changes, conflicts & conditions | SY   | \$25.00     |                     | 30.00       | 1                   | 875       | \$21 875.00   | 100.00%             | 30.00            | 875                | \$21 875.00    |              |
| 9    | 1 aff. Control Allowance increase   | LS   | \$15 000.00 |                     | 30.00       | 1                   | 1         | \$15 000.00   | 100.00%             | 30.00            | 1                  | \$15 000.00    |              |
| 10   | Police Officer Allowance increase   | LS   | \$5 000.00  |                     | 30.00       | 1                   | 1         | \$5 000.00    | 100.00%             | 30.00            | 1                  | \$5 000.00     |              |
|      |   |      |             |                     |             | 1                   |           |               |                     |                  |                    | Subtotal       | \$190 325.99 |
|      | Change Order #2   |      |             |                     |             | 1                   |           |               |                     |                  |                    |                |              |
|      | Added tapping sleeve and 6" ductile iron pipe at 68th Place and Jackrabbits | LS   | \$5 290.19  |                     | 30.00       | 1                   | 1         | \$5 290.19    | 100.00%             | 30.00            | 1                  | \$5 290.19     |              |
| 2    | 1 Service line to Lot 12 NW corner 68th Place                               | LS   | \$4 026.59  |                     | 30.00       | 1                   | 1         | \$4 026.59    | 100.00%             | 30.00            | 1                  | \$4 026.59     |              |
| 3    | Costs associated with cut & plug delays                                     | LS   | \$7 272.89  |                     | 30.00       | 1                   | 1         | \$7 272.89    | 100.00%             | 30.00            | 1                  | \$7 272.89     |              |
| 4    | Arrest sign & costs   | LS   | \$8 562.65  |                     | 30.00       | 1                   | 1         | \$8 562.65    | 100.00%             | 30.00            | 1                  | \$8 562.65     |              |
| 5    | Trail Control Allowance   | LS   | \$11 000.00 | 1                   | \$11 000.00 | 1                   | 1         | \$11 000.00   | 100.00%             | 30.00            | 1                  | \$11 000.00    |              |
| 6    | Police Officer Allowance  | LS   | \$4 000.00  | 1                   | \$4 000.00  | 1                   | 1         | \$4 000.00    | 100.00%             | 30.00            | 1                  | \$4 000.00     |              |
|      |   |      |             |                     |             | 1                   |           |               |                     |                  |                    | Subtotal       | \$40 138.31  |

## WHEELER CONSTRUCTION, INC.

P.O. Box 5277

5100 North 4th Street

Phoenix, Arizona 85018-5277

(602) 254-3170

FAX (602) 254-1293

Received

SEP - 6 2005

Shared Services Center

CONTRACTOR'S BILL

INVOICE NO 1989 12

PAGE 1 OF 1

DATE 08/01/2005

PERIOD ENDING 08/01/2005

PE AP 100

NAME Arizona American Water Company  
ADDRESS 19870 North 7th Street  
S No 201  
Phoenix, AZ 85024

PROJECT 85143 Jackrabbit &amp; 19870 North 7th Street Water Mtr Replacement

| ITEM                       | DESCRIPTION                                       | UNIT | PRICE         | CURRENT BILLING<br>QUANTITY | AMOUNT           | BILLING-TO-DATE<br>QUANTITY | AMOUNT        | %<br>COMPLETE | BALANCE OF<br>CONTRACT | PLANNED<br>QUANTITY | SCHEDULE<br>OF VALUES |
|----------------------------|---|------|---------------|-----------------------------|------------------|-----------------------------|---------------|---------------|------------------------|---------------------|-----------------------|
| 1                          | Ch g Ord #3                                       |      |               |                             |                  |                             |               |               |                        |                     |                       |
| 1                          | Mod station / Demol station                       | EA   | \$7,500.00    | 30.00                       | \$7,500.00       | 2.00                        | \$15,000.00   | 100.00%       | \$0.00                 | 2                   | \$15,000.00           |
| 2                          | Construction Survey                               | LS   | \$6,900.00    | 30.00                       | \$6,900.00       | 1.00                        | \$6,900.00    | 100.00%       | \$0.00                 | 1                   | \$6,900.00            |
| 3                          | Compaction Test g                                 | LS   | \$7,200.00    | 30.00                       | \$7,200.00       | 1.00                        | \$7,200.00    | 100.00%       | \$0.00                 | 1                   | \$7,200.00            |
| 4                          | 1 all covered devices (allowance)                 | LS   | \$30,000.00   | 30.00                       | \$30,000.00      | 0.75                        | \$15,000.00   | 75.00%        | \$5,000.00             | 1                   | \$20,000.00           |
| 5                          | Police officer / Certified ITI person (allowance) | HR   | \$50.00       | 30.00                       | \$50.00          | 50.00                       | \$2,500.00    | 50.00%        | \$2,500.00             | 100                 | \$5,000.00            |
| 6                          | Polished concrete g all test before survey        | LS   | \$5,500.00    | 30.00                       | \$5,500.00       | 1.00                        | \$5,500.00    | 100.00%       | \$0.00                 | 1                   | \$5,500.00            |
| 7                          | 16" PC350 Riser and joint ductile iron pipe       | LF   | \$126.00      | 30.00                       | \$3,780.00       | 2,428.00                    | \$307,188.00  | 100.00%       | \$0.00                 | 2,428               | \$307,188.00          |
| 8                          | Storm Manhole (Pipe, Valves & Fittings)           | LF   | \$34,800.00   | 30.00                       | \$1,044,000.00   | 0.00                        | \$0.00        | ERR           | \$0.00                 | 0                   | \$0.00                |
| 9                          | 16" Vertical cast iron                            | EA   | \$4,800.00    | 30.00                       | \$1,440,000.00   | 3.00                        | \$14,400.00   | 100.00%       | \$0.00                 | 3                   | \$14,400.00           |
| 10                         | 16" Vertical rising man                           | EA   | \$2,500.00    | 30.00                       | \$750,000.00     | 1.00                        | \$2,500.00    | 100.00%       | \$0.00                 | 1                   | \$2,500.00            |
| 11                         | 16" Vertical rising man                           | EA   | \$2,100.00    | 30.00                       | \$630,000.00     | 1.00                        | \$2,100.00    | 100.00%       | \$0.00                 | 1                   | \$2,100.00            |
| 12                         | Remove 16" cap & con. set to testing m            | EA   | \$500.00      | 30.00                       | \$15,000.00      | 1.00                        | \$500.00      | 100.00%       | \$0.00                 | 1                   | \$500.00              |
| 13                         | 30" 16" Jacked steel m g                          | LF   | \$170.00      | 30.00                       | \$5,100.00       | 65.00                       | \$11,050.00   | 100.00%       | \$0.00                 | 65                  | \$11,050.00           |
| 14                         | 16" PC350 Restrained joint ductile iron pipe      | LF   | \$145.00      | 30.00                       | \$4,350.00       | 65                          | \$9,425.00    | 100.00%       | \$0.00                 | 65                  | \$9,425.00            |
| 15                         | 16" PC350 Restrained joint ductile iron pipe      | LF   | \$132.00      | 30.00                       | \$3,960.00       | 72                          | \$9,504.00    | 100.00%       | \$0.00                 | 72                  | \$9,504.00            |
| 16                         | 16" Gate valve and by-pass complete               | EA   | \$19,450.00   | 30.00                       | \$5,835,000.00   | 5.00                        | \$97,250.00   | 100.00%       | \$0.00                 | 5                   | \$97,250.00           |
| 17                         | 8" Gate Valve with box and cover                  | EA   | \$175.00      | 30.00                       | \$5,250.00       | 2                           | \$1,550.00    | 100.00%       | \$0.00                 | 2                   | \$1,550.00            |
| 18                         | 8" 15" valve box & cover                          | EA   | \$2,775.00    | 30.00                       | \$83,250.00      | 1                           | \$2,775.00    | 100.00%       | \$0.00                 | 1                   | \$2,775.00            |
| 19                         | 5" x 6" TS valve box & cover                      | EA   | \$2,550.00    | 30.00                       | \$76,500.00      | 2                           | \$4,700.00    | 100.00%       | \$0.00                 | 2                   | \$4,700.00            |
| 20                         | 2" Water service replacement                      | EA   | \$1,600.00    | 30.00                       | \$48,000.00      | 5                           | \$8,000.00    | 100.00%       | \$0.00                 | 5                   | \$8,000.00            |
| 21                         | 6" fire hydrant and complete on hydrant assembly  | EA   | \$4,200.00    | 30.00                       | \$126,000.00     | 4.00                        | \$16,800.00   | 100.00%       | \$0.00                 | 4                   | \$16,800.00           |
| 22                         | Cast out and plug man man                         | EA   | \$2,700.00    | 30.00                       | \$81,000.00      | 3.00                        | \$8,100.00    | 75.00%        | \$2,700.00             | 4                   | \$10,800.00           |
| 23                         | 16" 2" AWWA 300-1 blowoff                         | EA   | \$825.00      | 30.00                       | \$24,750.00      | 1.00                        | \$825.00      | 100.00%       | \$0.00                 | 1                   | \$825.00              |
| 24                         | Remove existing valve box handle / ABC            | EA   | \$250.00      | 30.00                       | \$7,500.00       | 10                          | \$2,500.00    | 100.00%       | \$0.00                 | 10                  | \$2,500.00            |
| 25                         | Remove existing g line hydrant & sale gas         | EA   | \$400.00      | 30.00                       | \$12,000.00      | 1                           | \$400.00      | 100.00%       | \$0.00                 | 1                   | \$400.00              |
| 26                         | Temporary pavement replacement 3" C-30 M          | SY   | \$24.00       | 30.00                       | \$720.00         | 2,460.00                    | \$58,920.00   | 100.00%       | \$0.00                 | 2,460               | \$58,920.00           |
| 27                         | Adjust man in line above to grad                  | EA   | \$310.00      | 30.00                       | \$9,300.00       | 0.00                        | \$0.00        | 100.00%       | \$0.00                 | 0                   | \$0.00                |
| 28                         | Excavate 16" man man MAG 404-1 & 404-2            | LF   | \$55.00       | 30.00                       | \$1,650.00       | 20.00                       | \$1,100.00    | 100.00%       | \$0.00                 | 20                  | \$1,100.00            |
| 29                         | Excavate 12" VCP Sewer MAG 404-1 & 404-2          | LF   | \$48.00       | 30.00                       | \$1,440.00       | 20.00                       | \$960.00      | 100.00%       | \$0.00                 | 20                  | \$960.00              |
| 30                         | Remove & Replace Curb                             | LF   | \$20.00       | 30.00                       | \$600.00         | 60.00                       | \$1,200.00    | 100.00%       | \$0.00                 | 60                  | \$1,200.00            |
| 31                         | Remove & Replace Sidewalk                         | SY   | \$9.50        | 30.00                       | \$2,850.00       | 300.00                      | \$3,705.00    | 100.00%       | \$0.00                 | 300                 | \$3,705.00            |
| 32                         | SI by Seal McDon 14 Day                           | SY   | \$2.65        | 30.00                       | \$795.00         | 2,475.00                    | \$6,558.75    | 100.00%       | \$0.00                 | 2,475               | \$6,558.75            |
| 33                         | Strip g & Marking (except McDonald Drive)         | LS   | \$750.00      | 30.00                       | \$22,500.00      | 1.00                        | \$750.00      | 100.00%       | \$0.00                 | 1                   | \$750.00              |
| 34                         | Contractor Bond                                   | LS   | \$6,673.35    | 30.00                       | \$199,999.95     | 1.00                        | \$6,673.35    | 100.00%       | \$0.00                 | 1                   | \$6,673.35            |
| 35                         | Sales Tax   | LS   | \$22,750.07   | 30.00                       | \$682,502.11     | 00.33%                      | \$32,342.31   | 00.33%        | \$547.76               | 1                   | \$32,750.07           |
|                            |   |      |               |                             |                  |                             |               |               |                        | Subtotal            | \$987,334.17          |
| Change Order #4 Revised    |   |      |               |                             |                  |                             |               |               |                        |                     |                       |
| 1                          | Total cost for SSC                                | LS   | \$65,637.00   | 30.00                       | \$1,969,110.00   | 1                           | \$65,637.00   | 100.00%       | \$0.00                 | 1                   | \$65,637.00           |
| 2                          | Credit for item #12 in CO #5                      | LS   | (\$46,800.00) | 30.00                       | (\$1,374,000.00) | 1                           | (\$46,800.00) | 100.00%       | \$0.00                 | 1                   | (\$46,800.00)         |
| 3                          | Bond  | LS   | \$200.20      | 30.00                       | \$6,006.00       | 1                           | \$200.20      | 100.00%       | \$0.00                 | 1                   | \$200.20              |
| 4                          | Sales Tax   | LS   | \$383.84      | 30.00                       | \$11,515.20      | 1                           | \$383.84      | 100.00%       | \$0.00                 | 1                   | \$383.84              |
|                            |   |      |               |                             |                  |                             |               |               |                        | Subtotal            | \$79,126.04           |
| Change Order #5 Difference |   |      |               |                             |                  |                             |               |               |                        |                     |                       |
| 1                          | Diff. cost for actual cost for SSC                | LS   | (\$2,983.50)  | 1                           | (\$2,983.50)     | 1                           | (\$2,983.50)  | 100.00%       | \$0.00                 | 1                   | (\$2,983.50)          |
| 2                          | Diff. cost for actual cost for bond               | LS   | (\$31.71)     | 1                           | (\$31.71)        | 1                           | (\$31.71)     | 100.00%       | \$0.00                 | 1                   | (\$31.71)             |
| 3                          | Diff. cost for actual cost for sales tax          | LS   | (\$155.82)    | 1                           | (\$155.82)       | 1                           | (\$155.82)    | 100.00%       | \$0.00                 | 1                   | (\$155.82)            |
|                            |   |      |               |                             |                  |                             |               |               |                        | Subtotal            | (\$3,171.03)          |
| Change Order #6            |   |      |               |                             |                  |                             |               |               |                        |                     |                       |
| 1                          | Removal of Police Officer                         | LS   | \$94,239.30   | 30.00                       | \$2,827,179.00   | 1                           | \$94,239.30   | 100.00%       | \$0.00                 | 1                   | \$94,239.30           |
| 2                          | Allowance Bond CO #1 & #2                         | LS   | (\$60,600.00) | 30.00                       | (\$1,818,000.00) | 1                           | (\$60,600.00) | 100.00%       | \$0.00                 | 1                   | (\$60,600.00)         |
| 3                          | Sales Tax   | LS   | \$1,220.13    | 30.00                       | \$36,603.90      | 1                           | \$1,220.13    | 100.00%       | \$0.00                 | 1                   | \$1,220.13            |
|                            |   |      |               |                             |                  |                             |               |               |                        | Subtotal            | \$34,859.33           |
| Change Order #6 Difference |   |      |               |                             |                  |                             |               |               |                        |                     |                       |
| 1                          | Add actual cost of Removal of Police Officer      | LS   | \$3,827.70    | 1                           | \$3,827.70       | 1                           | \$3,827.70    | 100.00%       | \$0.00                 | 1                   | \$3,827.70            |
| 2                          | Sales Tax   | LS   | \$197.82      | 1                           | \$197.82         | 1                           | \$197.82      | 100.00%       | \$0.00                 | 1                   | \$197.82              |
|                            |   |      |               |                             |                  |                             |               |               |                        | Subtotal            | \$4,025.52            |
| Change Order #6            |   |      |               |                             |                  |                             |               |               |                        |                     |                       |
| 1                          | Additional cost for 1 hydrant                     | LS   | \$2,877.70    | 30.00                       | \$86,331.10      | 1                           | \$2,877.70    | 100.00%       | \$0.00                 | 1                   | \$2,877.70            |
| 2                          | Bond  | LS   | \$30.50       | 30.00                       | \$915.00         | 1                           | \$30.50       | 100.00%       | \$0.00                 | 1                   | \$30.50               |
| 3                          | Sales Tax   | LS   | \$150.30      | 30.00                       | \$4,509.00       | 1                           | \$150.30      | 100.00%       | \$0.00                 | 1                   | \$150.30              |
|                            |   |      |               |                             |                  |                             |               |               |                        | Subtotal            | \$3,058.50            |

WHEELER CONSTRUCTION INC  
P O Box 5277  
1370 N. 24th Street  
Phoenix, Arizona 85018-5277  
(602) 254-3179  
FAX (602) 254-1293

CONTRACTOR'S BILLING

Received

SEP - 6 2005

Shared Services Center

INVOICE NO 10607 12

PAGE 1 OF 1

DATE 09/12/2005

PERIOD ENDING 09/30/2005

PREPARED BY Anthony J PHL

NAME Arizona Ave. Water Company  
ADDRESS 10020 North 7th Street  
Suite 201  
Phoenix, AZ 85024

PROJECT 85143 Jackrabbit & Irving rd Water Mtl Replacement

| ITEM   | DESCRIPTION  | UNIT | PRICE         | QUANTITY                | AMOUNT        | QUANTITY | AMOUNT           | % COMPLETE | BALANCE OF CONTRACT | PLANNED QUANTITY | SCHEDULE OF VALUES |
|--|--|------|---------------|-------------------------|---------------|----------|------------------|------------|---------------------|------------------|--------------------|
| <b>Change Order #7</b>                           |  |      |               |                         |               |          |                  |            |                     |                  |                    |
| 1  | Total Cost for Bore Drilling                       | LS   | \$24,891.96   |                         | \$0.00        | 1        | \$24,891.96      | 100.00%    | \$0.00              | 1                | \$24,891.96        |
|  | Bond   | LS   | \$262.43      |                         | \$0.00        | 1        | \$262.43         | 100.00%    | \$0.00              | 1                | \$262.43           |
|  | Sales Tax  | LS   | \$1,289.64    |                         | \$0.00        | 1        | \$1,289.64       | 100.00%    | \$0.00              | 1                | \$1,289.64         |
|  |  |      |               |                         |               |          |                  |            |                     | Subtotal         | \$26,444.03        |
| <b>Change Order #7 Diff. Items</b>               |  |      |               |                         |               |          |                  |            |                     |                  |                    |
| 1  | Deficit for actual cost for Bore Drilling          | LS   | (\$3,810.88)  | 1                       | (\$3,810.88)  | 1        | (\$3,810.88)     | 100.00%    | \$0.00              | 1                | (\$3,810.88)       |
|  | Bond   | LS   | (\$46.14)     | 1                       | (\$46.14)     | 1        | (\$46.14)        | 100.00%    | \$0.00              | 1                | (\$46.14)          |
|  | Sales Tax  | LS   | (\$199.04)    | 1                       | (\$199.04)    | 1        | (\$199.04)       | 100.00%    | \$0.00              | 1                | (\$199.04)         |
|  |  |      |               |                         |               |          |                  |            |                     | Subtotal         | (\$4,056.06)       |
| <b>Change Order #8</b>                           |  |      |               |                         |               |          |                  |            |                     |                  |                    |
| 1  | Bore Drilling 1" Air/Fluid Valve @ Marston         | LS   | \$2,870.44    | 1                       | \$2,870.44    | 1        | \$2,870.44       | 100.00%    | \$0.00              | 1                | \$2,870.44         |
| 2  | Additional Depth of Marston @ 29'-0" & 24'-0"      | LS   | \$6,232.41    | 1                       | \$6,232.41    | 1        | \$6,232.41       | 100.00%    | \$0.00              | 1                | \$6,232.41         |
| 3  | Reel Excavation @ Station 28+01                    | LS   | \$7,265.44    | 1                       | \$7,265.44    | 1        | \$7,265.44       | 100.00%    | \$0.00              | 1                | \$7,265.44         |
| 4  | Relocate Blow Off Assembly @ 44th St               | LS   | \$2,629.53    | 1                       | \$2,629.53    | 1        | \$2,629.53       | 100.00%    | \$0.00              | 1                | \$2,629.53         |
| 5  | Reel Excavation @ 16" Air Valve Station 12+00 West | LS   | \$20,037.45   | 1                       | \$20,037.45   | 1        | \$20,037.45      | 100.00%    | \$0.00              | 1                | \$20,037.45        |
| 6  | 12" Excavating CAT 330 Hammer Rental               | LS   | \$7,950.00    | 1                       | \$7,950.00    | 1        | \$7,950.00       | 100.00%    | \$0.00              | 1                | \$7,950.00         |
| 7  | Bore Drilling Perform Testing Services             | LS   | \$752.33      | 1                       | \$752.33      | 1        | \$752.33         | 100.00%    | \$0.00              | 1                | \$752.33           |
| 8  | 5% Markup on Subcontractors                        | LS   | \$2,383.89    | 1                       | \$2,383.89    | 1        | \$2,383.89       | 100.00%    | \$0.00              | 1                | \$2,383.89         |
|  | Bond   | LS   | \$532.05      | 1                       | \$532.05      | 1        | \$532.05         | 100.00%    | \$0.00              | 1                | \$532.05           |
|  | Sales Tax  | LS   | \$2,614.67    | 1                       | \$2,614.67    | 1        | \$2,614.67       | 100.00%    | \$0.00              | 1                | \$2,614.67         |
|  |  |      |               |                         |               |          |                  |            |                     | Subtotal         | \$53,298.29        |
| <b>Change Order #9</b>                           |  |      |               |                         |               |          |                  |            |                     |                  |                    |
| 1  | 16" PCCSD Rest. and Joint DP                       | LF   | \$175.00      | 5                       | \$875.00      | 5        | \$875.00         | 100.00%    | \$0.00              | 5                | \$875.00           |
| 2  | Pavement Post-tensioning                           | SF   | \$24.00       | 132                     | \$3,168.00    | 132      | \$3,168.00       | 100.00%    | \$0.00              | 132              | \$3,168.00         |
| 3  | Adjust Valves to Finish Grade                      | EA   | \$710.00      | 0                       | \$0.00        | 0        | \$0.00           | 100.00%    | \$0.00              | 0                | \$0.00             |
| 4  | Excavate 16" Water Main MAG 404-1404.2             | LF   | \$56.00       | 56                      | \$3,136.00    | 56       | \$3,136.00       | 100.00%    | \$0.00              | 56               | \$3,136.00         |
| 5  | Excavate 12" VCP Sewer MAG 404-1404.2              | LF   | \$48.00       | 36                      | \$1,728.00    | 36       | \$1,728.00       | 100.00%    | \$0.00              | 36               | \$1,728.00         |
| 6  | Remove & Replace Curb                              | LF   | \$20.00       | 140                     | \$2,800.00    | 140      | \$2,800.00       | 100.00%    | \$0.00              | 140              | \$2,800.00         |
| 7  | Remove & Replace Drive Driv Ramp                   | SF   | \$9.50        | 267                     | \$2,536.50    | 267      | \$2,536.50       | 100.00%    | \$0.00              | 267              | \$2,536.50         |
|  | Bond   | LS   | \$150.80      | 1                       | \$150.80      | 1        | \$150.80         | 100.00%    | \$0.00              | 1                | \$150.80           |
|  | Sales Tax  | LS   | \$741.05      | 1                       | \$741.05      | 1        | \$741.05         | 100.00%    | \$0.00              | 1                | \$741.05           |
|  |  |      |               |                         |               |          |                  |            |                     | Subtotal         | \$15,889.35        |
| <b>Change Order #10</b>                          |  |      |               |                         |               |          |                  |            |                     |                  |                    |
| 1  | Barometric & Police Officer                        | LS   | \$19,851.36   | 1                       | \$19,851.36   | 1        | \$19,851.36      | 100.00%    | \$0.00              | 1                | \$19,851.36        |
| 2  | Allowance (Bldg in original contract)              | LS   | (\$17,800.00) | 1                       | (\$17,800.00) | 1        | (\$17,800.00)    | 100.00%    | \$0.00              | 1                | (\$17,800.00)      |
|  | Bond   | LS   | \$12.24       | 1                       | \$12.24       | 1        | \$12.24          | 100.00%    | \$0.00              | 1                | \$12.24            |
|  | Sales Tax  | LS   | \$88.13       | 1                       | \$88.13       | 1        | \$88.13          | 100.00%    | \$0.00              | 1                | \$88.13            |
|  |  |      |               |                         |               |          |                  |            |                     | Subtotal         | \$1,231.73         |
| <b>REMARKS</b> Retention held on Change Order #5 |  |      |               |                         |               |          |                  |            |                     |                  |                    |
|  |  |      |               | Total Invoice           | \$81,316.34   |          | \$2,543,791.74   |            | \$11,147.70         |                  | \$2,554,939.44     |
|  |  |      |               | Retention               | \$0.00        |          | (\$5,000.00)     |            |                     |                  |                    |
|  |  |      |               | Net Invoice             | \$81,316.34   |          | \$2,538,791.74   |            |                     |                  |                    |
|  |  |      |               | Less Prior Billings     |               |          | (\$2,457,475.40) |            |                     |                  |                    |
|  |  |      |               | Balance Due             | \$81,316.34   |          | \$81,316.34      |            |                     |                  |                    |
|  |  |      |               | Misc. Charges/Credits   | \$0.00        |          | \$0.00           |            |                     |                  |                    |
|  |  |      |               | AMOUNT DUE THIS INVOICE | \$81,316.34   |          | \$81,316.34      |            |                     |                  |                    |

% COMPLETE  
10.30%



Wheeler Construction, Inc  
1310 N 24th Street  
Phoenix, Arizona 85008  
Phone 602-254-3179 Fax 602 254-1293

**CONDITIONAL-WAIVER-AND RELEASE ON PROGRESS PAYMENT**  
(Pursuant to A R S 33 1008)

Project **Jackrabbit & Invergordon Rd Water Main Replacement**  
Job No **85143**



On receipt by the undersigned of a check from Arizona American Water Company in the sum of **\*\*\$81,316 34\*\*** payable to Wheeler Construction, Inc and when the check has been properly endorsed and has been paid by the bank on which it is drawn this document becomes effective to release any Mechanic's Lien any state or federal statutory bond right any private bond right any claim for payment and any rights under any similar ordinance rule or statue related to claim or payment rights for persons in the undersigned's position that the undersigned has on the job of **Arizona American Water Company** located at **Jackrabbit & Invergordon** to the following extent This release covers a progress payment for all labor and materials through **08/31/05** only and does not cover any retention pending modifications and changes or items furnished after that date

Before any recipient of this document relies on it that person should verify evidence of payment to the undersigned

The undersigned warrants that he either has already paid or will use the monies he receives from this progress payment to promptly pay in full all of his laborers subcontractors materialmen and suppliers for all work materials, equipment or services provided for or to the above referenced project up to the date of this waiver The following invoices and pay applications are included in the above referenced amount **Invoice #18607-12**

Date **September 2, 2005**

**WHEELER CONSTRUCTION, INC**

By   
Judy L. Eldridge CFO/Treasurer

**Wheeler Construction, Inc**  
1310 N 24th Street  
Phoenix, Arizona 85008  
Phone 602-254-3179 Fax 602 254-1293

**CONDITIONAL WAIVER AND RELEASE ON PROGRESS PAYMENT**

(Pursuant to A R S 33-1008)

**Project** Jackrabbit & Invergordon Rd Water Main Replacement  
**Job No** 85143

A235PEC07

50024523<sub>AP</sub>

INV 8514314HB

D 9-29-05

On receipt by the undersigned of a check from Arizona American Water Co in the sum of **\$6,114.78** payable to Wheeler Construction, Inc and when the check has been properly endorsed and has been paid by the bank on which it is drawn this document becomes effective to release any Mechanic's Lien any state or federal statutory bond right any private bond right, any claim for payment and any rights under any similar ordinance rule or statute related to claim or payment rights for persons in the undersigned's position that the undersigned has on the job of Arizona American Water Co located at Jackrabbit & Invergordon Rd Water Main Replacement to the following extent This release covers a progress payment for all labor services equipment of materials furnished to the jobsite or to Arizona American Water Co through 9/29/05 only and does not cover any retention, pending modifications and changes or items furnished after that date

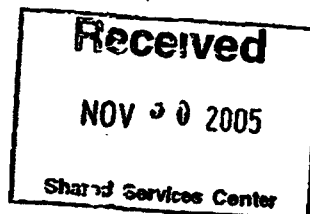
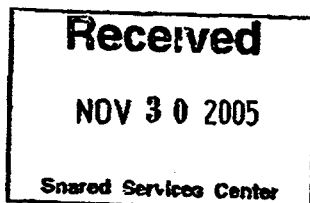
Before any recipient of this document relies on it that person should verify evidence of payment to the undersigned

The undersigned warrants that he either has already paid or will use the monies he receives from this progress payment to promptly pay in full all of his laborers subcontractors materialmen and suppliers for all work materials equipment or services provided for or to the above referenced project up to the date of this waiver The following invoices and pay applications are included in the above referenced amount: **Invoice #85143-14HB**

Date October 6, 2005

**WHEELER CONSTRUCTION, INC**

By *Andrew L. Eldridge*  
Andrew L. Eldridge - Vice President



WHEELER CONSTRUCTION, INC.  
 P. O. Box 5277  
 1919 North 7th Street  
 Phoenix, Arizona 85016-0277  
 (602) 254-5750  
 FAX (602) 254-1280

CONTRACTOR'S BILLING

INVOICE NO: 0510-1408

NAME: Arizona American Water Company  
 ADDRESS: 1919 North 7th Street  
 Suite 301  
 Phoenix, AZ 85004

PAGE: 1 OF 1

DATE: 06/23/05  
 PERIOD ENDING: 06/30/05

PREPARED BY: Audrey P. Ph

PROJECT: 05143 Jacksonville & Improvement Rd. Water Main Replacement

| ITEM                                       | DESCRIPTION                                    | UNIT | PRICE       | CURRENT BILLING<br>QUANTITY | AMOUNT | BILLING-TO-DATE<br>QUANTITY | AMOUNT      | %<br>COMPLETE | BALANCE OF<br>CONTRACT | PLANNED<br>QUANTITY | SCHEDULE<br>OF VALUES |
|--|--|------|-------------|-----------------------------|--------|-----------------------------|-------------|---------------|------------------------|---------------------|-----------------------|
| Change Order #7                            |  |      |             |                             |        |                             |             |               |                        |                     |                       |
| 1  | Total Cost for Sub Drilling                    | LS   | \$24,891.85 | 10.00                       |        | 1                           | \$24,891.85 | 100.00%       | \$0.00                 | 1                   | \$24,891.85           |
|  | Sub  | LS   | \$282.43    | 10.00                       |        | 1                           | \$282.43    | 100.00%       | \$0.00                 | 1                   | \$282.43              |
|  | Sub Tax  | LS   | \$1,289.84  | 10.00                       |        | 1                           | \$1,289.84  | 100.00%       | \$0.00                 | 1                   | \$1,289.84            |
|  |  |      |             |                             |        |                             |             |               |                        |                     | \$26,464.12           |
| Change Order #7 (Continued)                |  |      |             |                             |        |                             |             |               |                        |                     |                       |
| 1  | Sub Drilling for Sub Drilling                  | LS   | \$33,910.89 | 1.00                        |        | 1                           | \$33,910.89 | 100.00%       | \$0.00                 | 1                   | \$33,910.89           |
|  | Sub  | LS   | \$40.50     | 1.00                        |        | 1                           | \$40.50     | 100.00%       | \$0.00                 | 1                   | \$40.50               |
|  | Sub Tax  | LS   | \$199.84    | 1.00                        |        | 1                           | \$199.84    | 100.00%       | \$0.00                 | 1                   | \$199.84              |
|  |  |      |             |                             |        |                             |             |               |                        |                     | \$34,151.23           |
| Change Order #8                            |  |      |             |                             |        |                             |             |               |                        |                     |                       |
| 1  | Sub Drilling 1" Abutment Valve @ Marston       | LS   | \$2,576.44  | 10.00                       |        | 1                           | \$2,576.44  | 100.00%       | \$0.00                 | 1                   | \$2,576.44            |
| 2  | Additional Depth of Marston @ 20'-0" & 24'-0"  | LS   | \$6,232.41  | 10.00                       |        | 1                           | \$6,232.41  | 100.00%       | \$0.00                 | 1                   | \$6,232.41            |
| 3  | Rock Excavation @ Station 25+01                | LS   | \$7,205.48  | 10.00                       |        | 1                           | \$7,205.48  | 100.00%       | \$0.00                 | 1                   | \$7,205.48            |
| 4  | Substation Blow Off Assembly @ 44th St         | LS   | \$2,529.53  | 10.00                       |        | 1                           | \$2,529.53  | 100.00%       | \$0.00                 | 1                   | \$2,529.53            |
| 5  | Rock Excavation @ W Marston Station 12+00 West | LS   | \$28,037.45 | 10.00                       |        | 1                           | \$28,037.45 | 100.00%       | \$0.00                 | 1                   | \$28,037.45           |
| 6  | 12" Encasement CA7 200 Hammer Head             | LS   | \$7,300.00  | 10.00                       |        | 1                           | \$7,300.00  | 100.00%       | \$0.00                 | 1                   | \$7,300.00            |
| 7  | Sub Drilling Portals Trenching Services        | LS   | \$752.33    | 10.00                       |        | 1                           | \$752.33    | 100.00%       | \$0.00                 | 1                   | \$752.33              |
| 8  | 9" Marston on Substation                       | LS   | \$2,363.88  | 10.00                       |        | 1                           | \$2,363.88  | 100.00%       | \$0.00                 | 1                   | \$2,363.88            |
|  | Sub  | LS   | \$532.05    | 10.00                       |        | 1                           | \$532.05    | 100.00%       | \$0.00                 | 1                   | \$532.05              |
|  | Sub Tax  | LS   | \$2,814.67  | 10.00                       |        | 1                           | \$2,814.67  | 100.00%       | \$0.00                 | 1                   | \$2,814.67            |
|  |  |      |             |                             |        |                             |             |               |                        |                     | \$35,306.39           |
| Change Order #9                            |  |      |             |                             |        |                             |             |               |                        |                     |                       |
| 1  | 18" PVC20 Reinforced Joint EP                  | LF   | \$428.00    | 10.00                       |        | 5                           | \$632.00    | 100.00%       | \$0.00                 | 5                   | \$632.00              |
| 2  | Partnership Replacement                        | GT   | \$24.00     | 10.00                       |        | 132                         | \$3,168.00  | 100.00%       | \$0.00                 | 132                 | \$3,168.00            |
| 3  | Adjust Valves to Fresh Grade                   | EA   | \$700.00    | 10.00                       |        | 0                           | \$0.00      | 0%            | \$0.00                 | 0                   | \$0.00                |
| 4  | Excavate 18" Water Main MWD 404-1/004-2        | LF   | \$38.00     | 10.00                       |        | 36                          | \$1,368.00  | 100.00%       | \$0.00                 | 36                  | \$1,368.00            |
| 5  | Excavate 12" VCP Sewer MWD 404-1/004-2         | LF   | \$40.00     | 10.00                       |        | 36                          | \$1,440.00  | 100.00%       | \$0.00                 | 36                  | \$1,440.00            |
| 6  | Remove & Replace Curb                          | LF   | \$20.00     | 10.00                       |        | 140                         | \$2,800.00  | 100.00%       | \$0.00                 | 140                 | \$2,800.00            |
| 7  | Remove & Replace 6" Dia. Pump                  | GT   | \$8.00      | 10.00                       |        | 267                         | \$2,136.00  | 100.00%       | \$0.00                 | 267                 | \$2,136.00            |
|  | Sub  | LS   | \$150.00    | 10.00                       |        | 1                           | \$150.00    | 100.00%       | \$0.00                 | 1                   | \$150.00              |
|  | Sub Tax  | LS   | \$741.00    | 10.00                       |        | 1                           | \$741.00    | 100.00%       | \$0.00                 | 1                   | \$741.00              |
|  |  |      |             |                             |        |                             |             |               |                        |                     | \$14,082.00           |
| Change Order #10                           |  |      |             |                             |        |                             |             |               |                        |                     |                       |
| 1  | Rebarbing & Police Officer                     | LS   | \$18,051.35 | 10.00                       |        | 1                           | \$18,051.35 | 100.00%       | \$0.00                 | 1                   | \$18,051.35           |
| 2  | Rebarbing (Billed in subject contract)         | LS   | \$17,300.00 | 1.00                        |        | 1                           | \$17,300.00 | 100.00%       | \$0.00                 | 1                   | \$17,300.00           |
|  | Sub  | LS   | \$12.24     | 10.00                       |        | 1                           | \$12.24     | 100.00%       | \$0.00                 | 1                   | \$12.24               |
|  | Sub Tax  | LS   | \$50.00     | 10.00                       |        | 1                           | \$50.00     | 100.00%       | \$0.00                 | 1                   | \$50.00               |
|  |  |      |             |                             |        |                             |             |               |                        |                     | \$18,223.79           |
| REMARKS: Rebarbing bill on Change Order 10 |  |      |             |                             |        |                             |             |               |                        |                     |                       |
|  |  |      |             | Total Invoice               |        | \$2,564,006.89              |             | \$0.00        |                        | \$2,564,006.89      |                       |
|  |  |      |             | Payments                    |        | \$0.00                      |             |               |                        |                     |                       |
|  |  |      |             | Net Invoice                 |        | \$2,564,006.89              |             |               |                        |                     |                       |
|  |  |      |             | Less Prior Billings         |        | (\$2,548,004.70)            |             |               |                        |                     |                       |
|  |  |      |             | Balance Due                 |        | \$16,002.19                 |             |               |                        |                     |                       |
|  |  |      |             | Min. Charges/Credits        |        | \$0.00                      |             |               |                        |                     |                       |
|  |  |      |             | AMOUNT DUE THIS INVOICE     |        | \$16,002.19                 |             |               |                        |                     |                       |
|  |  |      |             |                             |        |                             |             |               |                        |                     |                       |
|  |  |      |             |                             |        |                             |             |               |                        |                     |                       |
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|  |  |      |             |                             |        |                             |             |               |                        |                     |                       |
|  |  |      |             |                             |        |                             |             |               |                        |                     |                       |

**FAX (402) 234-1200**

PROJECT 85143 Jackson Hill &amp; Immigration Rd. Water Main Replacement

### CONTRACTING IN 1989

INVOICE NO. 2510-1-02

PAGE 1 OF 1

DATE \_\_\_\_\_

PENDING INTERVIEW

PREPARED BY: Adrian I. Dine

| ITEM            | DESCRIPTION   | UNIT | PRICE       | CURRENT BILLING |        | BILLING-TO-DATE |              | %      | BALANCE OF CONTRACT | PLANNED QUANTITY | SCHEDULE OF VALUES |
|-----------------|---|------|-------------|-----------------|--------|-----------------|--------------|--------|---------------------|------------------|--------------------|
|                 |   |      |             | QUANTITY        | AMOUNT | QUANTITY        | AMOUNT       |        |                     |                  |                    |
| 1               | Installation / Demobilization   | EA   | \$12,000.00 | 0.00            | 17     | 2.00            | \$25,000.00  | 100.0% | \$0.00              | 2                | \$25,000.00        |
| 2               | Demol, remove, replace AC pavement  | SY   | \$25.00     | 0.00            | 17     | 2,900.00        | \$72,500.00  | 100.0% | \$0.00              | 2002             | \$72,500.00        |
| 3               | 24" DP & bitlugs  | LF   | \$158.40    | 0.00            | 17     | 1,400.00        | \$221,404.00 | 100.0% | \$0.00              | 1400             | \$221,404.00       |
| 4               | 20" DP & bitlugs  | LF   | \$170.00    | 0.00            | 17     | 40.00           | \$6,800.00   | 100.0% | \$0.00              | 40               | \$6,800.00         |
| 5               | 16" DP & bitlugs  | LF   | \$187.50    | 0.00            | 17     | 6,000.00        | \$705,750.00 | 100.0% | \$0.00              | 6000             | \$705,750.00       |
| 6               | 12" DP & bitlugs  | LF   | \$165.00    | 0.00            | 17     | 100.00          | \$16,500.00  | 100.0% | \$0.00              | 100              | \$16,500.00        |
| 7               | 8" DP & bitlugs   | LF   | \$370.00    | 0.00            | 17     | 15.00           | \$5,550.00   | 100.0% | \$0.00              | 10               | \$5,550.00         |
| 8               | 6" DP & bitlugs   | LF   | \$120.00    | 0.00            | 17     | 200.00          | \$24,000.00  | 100.0% | \$0.00              | 200              | \$24,000.00        |
| 9               | 24" SF value of 8" bypass complete  | EA   | \$13,000.00 | 0.00            | 17     | 2.00            | \$26,000.00  | 100.0% | \$0.00              | 2                | \$26,000.00        |
| 10              | 20" SF value of 8" bypass complete  | EA   | \$12,000.00 | 0.00            | 17     | 1.00            | \$12,000.00  | 100.0% | \$0.00              | 1                | \$12,000.00        |
| 11              | 16" Gals value of 16" bypass complete                                     | EA   | \$0.050.00  | 0.00            | 17     | 12.00           | \$116,500.00 | 100.0% | \$0.00              | 12               | \$116,500.00       |
| 12              | 16" x 16" T8, value less & cover  | EA   | \$0,300.00  | 0.00            | 17     | 1.00            | \$0,300.00   | 100.0% | \$0.00              | 1                | \$0,300.00         |
| 13              | 12" x 12" T8, value less & cover  | EA   | \$4,300.00  | 0.00            | 17     | 2.00            | \$8,600.00   | 100.0% | \$0.00              | 2                | \$8,600.00         |
| 14              | 8" x 8" T8, value less & cover  | EA   | \$2,000.00  | 0.00            | 17     | 1.00            | \$2,000.00   | 100.0% | \$0.00              | 1                | \$2,000.00         |
| 15              | 6" x 6" T8, value less & cover  | EA   | \$2,100.00  | 0.00            | 17     | 0.00            | \$10,500.00  | 100.0% | \$0.00              | 9                | \$10,500.00        |
| 16              | 4" x 4" T8, value less & cover  | EA   | \$2,000.00  | 0.00            | 17     | 7.00            | \$14,000.00  | 100.0% | \$0.00              | 7                | \$14,000.00        |
| 17              | 20" tapered cap and 2" P exp.   | EA   | \$1,200.00  | 0.00            | 17     | 1.00            | \$1,200.00   | 100.0% | \$0.00              | 1                | \$1,200.00         |
| 18              | 20" tapered cap and 2" P exp.   | EA   | \$1,125.00  | 0.00            | 17     | 1.00            | \$1,125.00   | 100.0% | \$0.00              | 1                | \$1,125.00         |
| 19              | 16" tapered cap and 2" P exp.   | EA   | \$000.00    | 0.00            | 17     | 1.00            | \$000.00     | 100.0% | \$0.00              | 1                | \$000.00           |
| 20              | 8" hot hybrid of 8" V8C   | EA   | \$3,000.00  | 0.00            | 17     | 21.00           | \$63,000.00  | 100.0% | \$0.00              | 21               | \$63,000.00        |
| 21              | Cast out and plug water main  | EA   | \$2,200.00  | 0.00            | 17     | 20.00           | \$44,000.00  | 100.0% | \$0.00              | 20               | \$44,000.00        |
| 22              | Water valve removed   | EA   | \$200.00    | 0.00            | 17     | 22.00           | \$4,400.00   | 100.0% | \$0.00              | 22               | \$4,400.00         |
| 23              | 1" water service, made to meter   | EA   | \$700.00    | 0.00            | 17     | 20.00           | \$14,000.00  | 100.0% | \$0.00              | 20               | \$14,000.00        |
| 24              | Pavement marking, 4" double yellow paint                                  | LF   | \$0.85      | 0.00            | 17     | 4,700.00        | \$4,000.00   | 100.0% | \$0.00              | 4700             | \$4,000.00         |
| 25              | Pavement marking, 8" solid white paint                                    | LF   | \$0.85      | 0.00            | 17     | 200.00          | \$170.00     | 100.0% | \$0.00              | 200              | \$170.00           |
| 26              | Pavement marking, 12" solid white paint                                   | LF   | \$1.50      | 0.00            | 17     | 444.00          | \$666.00     | 100.0% | \$0.00              | 444              | \$666.00           |
| 27              | Asphalt slurry seal   | SY   | \$1.35      | 0.00            | 17     | 29,633.00       | \$40,004.55  | 100.0% | \$0.00              | 29633            | \$40,004.55        |
| 28              | Traffic control   | LS   | \$10,000.00 | 0.00            | 17     | 1.00            | \$10,000.00  | 100.0% | \$0.00              | 1                | \$10,000.00        |
| 29              | Traffic officer   | LS   | \$7,000.00  | 0.00            | 17     | 1.00            | \$7,000.00   | 100.0% | \$0.00              | 1                | \$7,000.00         |
|                 |   |      |             |                 |        |                 |              |        |                     |                  | \$1,07 \$30.00     |
| Change Order #1 |   |      |             |                 |        |                 |              |        |                     |                  |                    |
| 1               | Credit allocated of delays caused by utility from not shown on plans      | HR   | \$1,144.00  |                 | 17     | 70              | \$65,094.34  | 100.0% | \$0.00              | 70               | \$65,094.34        |
| 2               | Credit for deleted 1" water services                                      | EA   | \$700.00    |                 | 17     | 4               | \$2,800.00   | 100.0% | \$0.00              | 4                | \$2,800.00         |
| 2a              | Additional cost to increase service size to 2"                            | EA   | \$1,200.04  |                 | 17     | 6               | \$7,200.24   | 100.0% | \$0.00              | 6                | \$7,200.24         |
| 2b              | Additional cost to increase service size to 4"                            | EA   | \$3,625.76  |                 | 17     | 1               | \$3,625.76   | 100.0% | \$0.00              | 1                | \$3,625.76         |
| 3               | Credit to remove meter service  | EA   | \$475.25    |                 | 17     | 3               | \$1,425.00   | 100.0% | \$0.00              | 3                | \$1,425.00         |
| 4               | Additional 16" double line pipe due to changes                            | LF   | \$187.50    |                 | 17     | 30              | \$5,625.00   | 100.0% | \$0.00              | 30               | \$5,625.00         |
| 4b              | Credit for 16" bypasses not installed                                     | EA   | \$6,475.00  |                 | 17     | 2               | \$10,950.00  | 100.0% | \$0.00              | 2                | \$10,950.00        |
| 5               | Credit for 16" x 16" tapping sleeves and valve                            | EA   | \$0,300.00  |                 | 17     | 1               | \$0,300.00   | 100.0% | \$0.00              | 1                | \$0,300.00         |
| 5a              | Credit allocated of McDonald / Transportation                             | LS   | \$10,000.00 |                 | 17     | 1               | \$10,000.00  | 100.0% | \$0.00              | 1                | \$10,000.00        |
| 6               | Installed Jackrabbit pit & curbing pavement                               | LS   | \$27,000.00 |                 | 17     | 1               | \$27,000.00  | 100.0% | \$0.00              | 1                | \$27,000.00        |
| 7               | Remove concrete apron & walk ME center                                    | LS   | \$2,000.00  |                 | 17     | 1               | \$2,000.00   | 100.0% | \$0.00              | 1                | \$2,000.00         |
| 8               | Added pavement replacement due to alignment changes, curbside & medians   | SY   | \$25.00     |                 | 17     | 875             | \$21,875.00  | 100.0% | \$0.00              | 875              | \$21,875.00        |
| 9               | Traffic Control Alternatives Inspection                                   | LS   | \$15,000.00 |                 | 17     | 1               | \$15,000.00  | 100.0% | \$0.00              | 1                | \$15,000.00        |
| 10              | Pickup Office Alternatives Inspection                                     | LS   | \$5,000.00  |                 | 17     | 1               | \$5,000.00   | 100.0% | \$0.00              | 1                | \$5,000.00         |
|                 |   |      |             |                 |        |                 |              |        |                     |                  | \$700,025.01       |
| Change Order #2 |   |      |             |                 |        |                 |              |        |                     |                  |                    |
| 1               | Added tapping sleeve and 16" double line pipe at 6th Place and Jackrabbit | LS   | \$5,200.10  |                 | 17     | 1               | \$5,200.10   | 100.0% | \$0.00              | 1                | \$5,200.10         |
| 2               | 1" Service line to Lot 12 HW center 6th Place                             | LS   | \$4,020.00  |                 | 17     | 1               | \$4,020.00   | 100.0% | \$0.00              | 1                | \$4,020.00         |
| 3               | Credit allocated with out & plug delays                                   | LS   | \$7,272.00  |                 | 17     | 1               | \$7,272.00   | 100.0% | \$0.00              | 1                | \$7,272.00         |
| 4               | Actual slurry costs   | LS   | \$0,302.05  |                 | 17     | 1               | \$0,302.05   | 100.0% | \$0.00              | 1                | \$0,302.05         |
| 5               | Traffic Control Alternatives  | LS   | \$11,000.00 |                 | 17     | 1               | \$11,000.00  | 100.0% | \$0.00              | 1                | \$11,000.00        |
| 6               | Pickup Office Alternatives  | LS   | \$4,020.00  |                 | 17     | 1               | \$4,020.00   | 100.0% | \$0.00              | 1                | \$4,020.00         |

P O Box 8277  
1310 North 34th Street  
Phoenix, Arizona 85018-8277  
(602) 254-3179  
FAX (602) 254-1290

## INVOICE NO: 13143-14011

PAGE 1 OF 1

NAME: Arizona American Water Company  
ADDRESS: 19220 North 7th Street  
Suite 201  
Phoenix, AZ 85024

| DATE          | REVISIONS |
|---------------|-----------|
| PERIOD ENDING | REVISIONS |

PREPARED BY Anthony J. Pina

PROJECT 23443 Jacksonlar &amp; Invergordon Rd. Water Main Replacement

| ITEM                       | DESCRIPTION                                     | UNIT | PRICE          | CURRENT BILLING |        | BILLING-TO-DATE |                | % COMPLETE | BALANCE OF CONTRACT | PLANNED QUANTITY | SCHEDULE OF VALUES |
|----------------------------|---|------|----------------|-----------------|--------|-----------------|----------------|------------|---------------------|------------------|--------------------|
|                            |   |      |                | QUANTITY        | AMOUNT | QUANTITY        | AMOUNT         |            |                     |                  |                    |
| Change Order 00            |   |      |                |                 |        |                 |                |            |                     |                  |                    |
| 1                          | Mobilization/Demobilization                     | EA   | \$7,500.00     | 00.00           | 0      | 2.00            | \$75,000.00    | 100.00%    | \$0.00              | 2                | \$75,000.00        |
| 2                          | Construction Survey                             | LS   | \$6,300.00     | 00.00           | 0      | 1.00            | \$6,300.00     | 100.00%    | \$0.00              | 1                | \$6,300.00         |
| 3                          | Competition Testing                             | LS   | \$7,200.00     | 00.00           | 0      | 1.00            | \$7,200.00     | 100.00%    | \$0.00              | 1                | \$7,200.00         |
| 4                          | Traffic control banner (alternance)             | LS   | \$20,000.00    | 00.00           | 0      | 1.00            | \$20,000.00    | 100.00%    | \$0.00              | 1                | \$20,000.00        |
| 5                          | Police officer /Control Program (alternance)    | HR   | \$80.00        | 00.00           | 0      | 100.00          | \$8,000.00     | 100.00%    | \$0.00              | 100              | \$8,000.00         |
| 6                          | Publics warning utilities before survey         | LS   | \$5,500.00     | 00.00           | 0      | 1.00            | \$5,500.00     | 100.00%    | \$0.00              | 1                | \$5,500.00         |
| 7                          | 16" FC250 Reinforced joint ductile iron pipe    | LF   | \$125.00       | 00.00           | 0      | 2,000.00        | \$250,000.00   | 100.00%    | \$0.00              | 2000             | \$250,000.00       |
| 7                          | Steel Manholes (Pave, Valves, Fittings)         | LF   | \$50,000.00    | 00.00           | 0      | 0.00            | \$0.00         | 0%         | \$0.00              | 0                | \$0.00             |
| 8                          | 16" Vertical manhole                            | EA   | \$4,000.00     | 00.00           | 0      | 3.00            | \$12,000.00    | 100.00%    | \$0.00              | 3                | \$12,000.00        |
| 9                          | 6" Vertical manhole                             | EA   | \$2,500.00     | 00.00           | 0      | 1.00            | \$2,500.00     | 100.00%    | \$0.00              | 1                | \$2,500.00         |
| 10                         | 6" Vertical manhole                             | EA   | \$2,100.00     | 00.00           | 0      | 1.00            | \$2,100.00     | 100.00%    | \$0.00              | 1                | \$2,100.00         |
| 11                         | Remove 36" top & connect to existing main       | EA   | \$500.00       | 00.00           | 0      | 1.00            | \$500.00       | 100.00%    | \$0.00              | 1                | \$500.00           |
| 12                         | 36" 12" Jacket steel casing                     | LF   | \$70.00        | 00.00           | 0      | 65.00           | \$4,550.00     | 100.00%    | \$0.00              | 65               | \$4,550.00         |
| 13                         | 6" FC250 Reinforced joint ductile iron pipe     | LF   | \$145.00       | 00.00           | 0      | 65              | \$9,425.00     | 100.00%    | \$0.00              | 65               | \$9,425.00         |
| 14                         | 6" FC250 Reinforced joint ductile iron pipe     | LF   | \$152.00       | 00.00           | 0      | 72              | \$10,944.00    | 100.00%    | \$0.00              | 72               | \$10,944.00        |
| 15                         | 16" Gate valve and by-pass complete             | EA   | \$10,400.00    | 00.00           | 0      | 5.00            | \$52,000.00    | 100.00%    | \$0.00              | 5                | \$52,000.00        |
| 16                         | 6" Gate Valve with test and cover               | EA   | \$775.00       | 00.00           | 0      | 2               | \$1,550.00     | 100.00%    | \$0.00              | 2                | \$1,550.00         |
| 17                         | 6" 6" TS, valve less & cover                    | EA   | \$2,775.00     | 00.00           | 0      | 1               | \$2,775.00     | 100.00%    | \$0.00              | 1                | \$2,775.00         |
| 18                         | 6" 6" TS, valve less & cover                    | EA   | \$2,350.00     | 00.00           | 0      | 2               | \$4,700.00     | 100.00%    | \$0.00              | 2                | \$4,700.00         |
| 19                         | 2" Water service replacement                    | EA   | \$1,000.00     | 00.00           | 0      | 5               | \$5,000.00     | 100.00%    | \$0.00              | 5                | \$5,000.00         |
| 20                         | 6" fire hydrant complete on bypass assembly     | EA   | \$4,200.00     | 00.00           | 0      | 4.00            | \$16,800.00    | 100.00%    | \$0.00              | 4                | \$16,800.00        |
| 21                         | Cut and plug water main                         | EA   | \$2,700.00     | 00.00           | 0      | 4.00            | \$10,800.00    | 100.00%    | \$0.00              | 4                | \$10,800.00        |
| 22                         | 16" 2" AASPC 300-1 Manhole                      | EA   | \$105.00       | 00.00           | 0      | 1.00            | \$105.00       | 100.00%    | \$0.00              | 1                | \$105.00           |
| 23                         | Remove existing water line, install of A/C      | EA   | \$250.00       | 00.00           | 0      | 10              | \$2,500.00     | 100.00%    | \$0.00              | 10               | \$2,500.00         |
| 24                         | Remove existing fire hydrant & subgrade         | EA   | \$400.00       | 00.00           | 0      | 1               | \$400.00       | 100.00%    | \$0.00              | 1                | \$400.00           |
| 25                         | Temporary pavement replacement 2" C-304 bit     | SY   | \$34.00        | 00.00           | 0      | 2,000.00        | \$68,000.00    | 100.00%    | \$0.00              | 2000             | \$68,000.00        |
| 26                         | Adjust new water valve to grade                 | EA   | \$700.00       | 00.00           | 0      | 0.00            | \$0.00         | 0%         | \$0.00              | 0                | \$0.00             |
| 27                         | Excavate 16" water main 1840 404-1 & 404-2      | LF   | \$55.00        | 00.00           | 0      | 20.00           | \$1,100.00     | 100.00%    | \$0.00              | 20               | \$1,100.00         |
| 28                         | Excavate 12" VCP Sewer 1840 404-1 & 404-2       | LF   | \$40.00        | 00.00           | 0      | 20.00           | \$800.00       | 100.00%    | \$0.00              | 20               | \$800.00           |
| 29                         | Remove & Replace Curb                           | LF   | \$20.00        | 00.00           | 0      | 40.00           | \$1,200.00     | 100.00%    | \$0.00              | 40               | \$1,200.00         |
| 30                         | Remove & Replace Sidewalk                       | SF   | \$0.30         | 00.00           | 0      | 300.00          | \$3,750.00     | 100.00%    | \$0.00              | 300              | \$3,750.00         |
| 31                         | Stony Bag McDonald Drive                        | SY   | \$2.00         | 00.00           | 0      | 2,475.00        | \$4,950.75     | 100.00%    | \$0.00              | 2475             | \$4,950.75         |
| 32                         | Striping & Marking (except McDonald Drive)      | LS   | \$700.00       | 00.00           | 0      | 1.00            | \$700.00       | 100.00%    | \$0.00              | 1                | \$700.00           |
|                            | Contractor Bond                                 | LS   | \$6,673.35     | 00.00           | 0      | 1.00            | \$6,673.35     | 100.00%    | \$0.00              | 1                | \$6,673.35         |
|                            | Subtotal  | LS   | \$32,700.07    | 00.00           | 0      | 100.00%         | \$32,700.07    | 100.00%    | \$0.00              | 1                | \$32,700.07        |
| Change Order 04 Refunded   |   |      |                |                 |        |                 |                |            |                     |                  |                    |
| 1                          | Total cost for SSC                              | LS   | \$85,837.00    | 00.00           | 0      | 1               | \$85,837.00    | 100.00%    | \$0.00              | 1                | \$85,837.00        |
| 2                          | Credit for Item #12 in CO 00                    | LS   | \$(-48,000.00) | 00.00           | 0      | 1               | \$(-48,000.00) | 100.00%    | \$0.00              | 1                | \$(-48,000.00)     |
|                            | Bond  | LS   | \$200.00       | 00.00           | 0      | 1               | \$200.00       | 100.00%    | \$0.00              | 1                | \$200.00           |
|                            | Subtotal  | LS   | \$38,037.00    | 00.00           | 0      | 1               | \$38,037.00    | 100.00%    | \$0.00              | 1                | \$38,037.00        |
| Change Order 04 Difference |   |      |                |                 |        |                 |                |            |                     |                  |                    |
| 1                          | Deduct for actual cost for SSC                  | LS   | (\$2,803.50)   | 00.00           | 0      | 1               | (\$2,803.50)   | 100.00%    | \$0.00              | 1                | (\$2,803.50)       |
|                            | Deduct for actual cost for bond                 | LS   | (\$317.70)     | 00.00           | 0      | 1               | (\$317.70)     | 100.00%    | \$0.00              | 1                | (\$317.70)         |
|                            | Deduct for actual cost for value tax            | LS   | (\$155.82)     | 00.00           | 0      | 1               | (\$155.82)     | 100.00%    | \$0.00              | 1                | (\$155.82)         |
| Change Order 05            |   |      |                |                 |        |                 |                |            |                     |                  |                    |
| 1                          | Sanitation & Police Officer                     | LS   | \$84,200.00    | 00.00           | 0      | 1               | \$84,200.00    | 100.00%    | \$0.00              | 1                | \$84,200.00        |
| 2                          | Allowance Billed in CO 00 & 02                  | LS   | \$80,000.00    | 00.00           | 0      | 1               | \$80,000.00    | 100.00%    | \$0.00              | 1                | \$80,000.00        |
|                            | Subtotal  | LS   | \$1,220.00     | 00.00           | 0      | 1               | \$1,220.00     | 100.00%    | \$0.00              | 1                | \$1,220.00         |
| Change Order 05 Difference |   |      |                |                 |        |                 |                |            |                     |                  |                    |
| 1                          | Add actual cost for Sanitation & Police Officer | LS   | \$3,827.70     | 00.00           | 0      | 1               | \$3,827.70     | 100.00%    | \$0.00              | 1                | \$3,827.70         |
|                            | Subtotal  | LS   | \$197.82       | 00.00           | 0      | 1               | \$197.82       | 100.00%    | \$0.00              | 1                | \$197.82           |
| Change Order 06            |   |      |                |                 |        |                 |                |            |                     |                  |                    |
| 1                          | Additional cost for fire hydrant                | LS   | \$2,877.70     | 00.00           | 0      | 1               | \$2,877.70     | 100.00%    | \$0.00              | 1                | \$2,877.70         |
|                            | Bond  | LS   | \$20.00        | 00.00           | 0      | 1               | \$20.00        | 100.00%    | \$0.00              | 1                | \$20.00            |
|                            | Subtotal  | LS   | \$150.30       | 00.00           | 0      | 1               | \$150.30       | 100.00%    | \$0.00              | 1                | \$150.30           |

Wheeler Construction, Inc  
1310 N 24th Street  
Phoenix, Arizona 85008  
Phone 602 254-3179 Fax 602-254-1293

**CONDITIONAL WAIVER AND RELEASE ON PROGRESS PAYMENT**

(Pursuant to A R S 33-1008)

Project Jackrabbit & Invergordon Rd Water Main Replacement  
Job No 85143

A23SPEC07  
50024523.1  
INV 1865913  
DT 9 29 05

On receipt by the undersigned of a check from Arizona American Water Co in the sum of **\$10,032.98** payable to Wheeler Construction, Inc and when the check has been properly endorsed and has been paid by the bank on which it is drawn, this document becomes effective to release any Mechanic's Lien, any state or federal statutory bond right, any private bond right any claim for payment and any rights under any similar ordinance rule or statute related to claim or payment rights for persons in the undersigned's position that the undersigned has on the job of Arizona American Water Co located at Jackrabbit & Invergordon Rd Water Main Replacement to the following extent This release covers a progress payment for all labor, services equipment of materials furnished to the jobsite or to Arizona American Water Co through 9/29/05 only and does not cover any retention pending modifications and changes or items furnished after that date

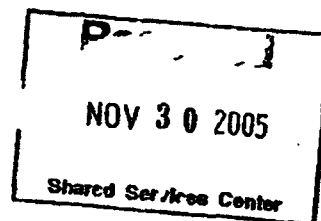
Before any recipient of this document relies on it that person should verify evidence of payment to the undersigned

The undersigned warrants that he either has already paid or will use the monies he receives from this progress payment to promptly pay in full all of his laborers subcontractors materialmen and suppliers for all work materials, equipment or services provided for or to the above referenced project up to the date of this waiver. The following invoices and pay applications are included in the above referenced amount **Invoice #18659-13**

Date October 6, 2005

**WHEELER CONSTRUCTION, INC**

By Andrew L. Eldridge  
Andrew L. Eldridge - Vice President



WHEELER CONSTRUCTION, INC.  
P. O. Box 5277  
1910 North 34th Street  
Phoenix, Arizona 85018-5277  
(602) 254-3179  
FAX (602) 254-4285

CONTRACTOR'S BILLING

INVOICE NO. 18538-03

PAGE 1 OF 1

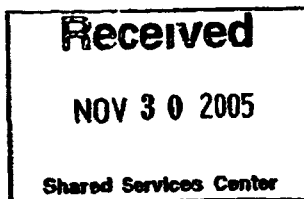
NAME Arizona American Water Company  
ADDRESS 3925 North 75th Street  
Suite 301  
Phoenix, AZ 85018

DATE 08/02/05  
PERIOD ENDING 08/02/05

PREPARED BY Ashley / PM

PROJECT 15145 Juchabell & Interstate Rd. Water Main Replacement

| ITEM  | DESCRIPTION                                       | UNIT | PRICE                     | QUANTITY | AMOUNT        | QUANTITY | AMOUNT           | % COMPLETE | BALANCE OF CONTRACT | PLANNED QUANTITY | SCHEDULE OF VALUES |
|---|---|------|---------------------------|----------|---------------|----------|------------------|------------|---------------------|------------------|--------------------|
| <b>Change Order #7</b>                            |   |      |                           |          |               |          |                  |            |                     |                  |                    |
| 1   | Total Cost for Bore Drilling                      | LS   | \$24,591.38               | 1        | \$24,591.38   | 1        | \$24,591.38      | 100.00%    | \$0.00              | 1                | \$24,591.38        |
|   | Road  | LS   | \$262.40                  | 1        | \$262.40      | 1        | \$262.40         | 100.00%    | \$0.00              | 1                | \$262.40           |
|   | Sales Tax   | LS   | \$1,266.54                | 1        | \$1,266.54    | 1        | \$1,266.54       | 100.00%    | \$0.00              | 1                | \$1,266.54         |
|   |   |      |                           |          |               |          |                  |            | Subtotal            |                  | \$26,120.32        |
| <b>Change Order #7 Difference</b>                 |   |      |                           |          |               |          |                  |            |                     |                  |                    |
| 1   | Deduct for actual cost for Bore Drilling          | LS   | (\$3,910.88)              | 1        | (\$3,910.88)  | 1        | (\$3,910.88)     | 100.00%    | \$0.00              | 1                | (\$3,910.88)       |
|   | Road  | LS   | (\$40.51)                 | 1        | (\$40.51)     | 1        | (\$40.51)        | 100.00%    | \$0.00              | 1                | (\$40.51)          |
|   | Sales Tax   | LS   | (\$188.94)                | 1        | (\$188.94)    | 1        | (\$188.94)       | 100.00%    | \$0.00              | 1                | (\$188.94)         |
|   |   |      |                           |          |               |          |                  |            | Subtotal            |                  | (\$4,140.33)       |
| <b>Change Order #8</b>                            |   |      |                           |          |               |          |                  |            |                     |                  |                    |
| 1   | Bore Drilling 1" Abutment Vals @ Maricopa         | LS   | \$2,570.44                | 1        | \$2,570.44    | 1        | \$2,570.44       | 100.00%    | \$0.00              | 1                | \$2,570.44         |
| 2   | Additional Depth of Maricopa @ 25-44 & 25-20      | LS   | \$6,232.41                | 1        | \$6,232.41    | 1        | \$6,232.41       | 100.00%    | \$0.00              | 1                | \$6,232.41         |
| 3   | Rock Excavation @ Station 25-41                   | LS   | \$7,205.44                | 1        | \$7,205.44    | 1        | \$7,205.44       | 100.00%    | \$0.00              | 1                | \$7,205.44         |
| 4   | Reinforce Bar CR Assembly @ 440 SL                | LS   | \$2,529.53                | 1        | \$2,529.53    | 1        | \$2,529.53       | 100.00%    | \$0.00              | 1                | \$2,529.53         |
| 5   | Rock Excavation @ 18" Maricopa Station 12-40 West | LS   | \$26,007.45               | 1        | \$26,007.45   | 1        | \$26,007.45      | 100.00%    | \$0.00              | 1                | \$26,007.45        |
| 6   | 12" Excavating CAT 330 Hammer Punch               | LS   | \$7,590.00                | 1        | \$7,590.00    | 1        | \$7,590.00       | 100.00%    | \$0.00              | 1                | \$7,590.00         |
| 7   | Bore Drilling Purpose Testing Services            | LS   | \$732.39                  | 1        | \$732.39      | 1        | \$732.39         | 100.00%    | \$0.00              | 1                | \$732.39           |
| 8   | 15% Markup on Subcontractors                      | LS   | \$2,363.88                | 1        | \$2,363.88    | 1        | \$2,363.88       | 100.00%    | \$0.00              | 1                | \$2,363.88         |
|   | Road  | LS   | \$532.85                  | 1        | \$532.85      | 1        | \$532.85         | 100.00%    | \$0.00              | 1                | \$532.85           |
|   | Sales Tax   | LS   | \$2,514.67                | 1        | \$2,514.67    | 1        | \$2,514.67       | 100.00%    | \$0.00              | 1                | \$2,514.67         |
|   |   |      |                           |          |               |          |                  |            | Subtotal            |                  | \$53,949.26        |
| <b>Change Order #9</b>                            |   |      |                           |          |               |          |                  |            |                     |                  |                    |
| 1   | 18" PC250 Reinforced Joint (JP)                   | LF   | \$125.00                  | 5        | \$625.00      | 5        | \$625.00         | 100.00%    | \$0.00              | 5                | \$625.00           |
| 2   | Formwork Reinforcement                            | SY   | \$24.00                   | 132      | \$3,168.00    | 132      | \$3,168.00       | 100.00%    | \$0.00              | 132              | \$3,168.00         |
| 3   | Adjust Values to Finish Grade                     | EA   | \$700.00                  | 0        | \$0.00        | 0        | \$0.00           | 0.00%      | \$0.00              | 0                | \$0.00             |
| 4   | Excavate 18" Water Main MAG 404-UM04.2            | LF   | \$55.00                   | 56       | \$3,080.00    | 56       | \$3,080.00       | 100.00%    | \$0.00              | 56               | \$3,080.00         |
| 5   | Excavate 18" VCP Sewer MAG 404-UM04.2             | LF   | \$48.00                   | 36       | \$1,728.00    | 36       | \$1,728.00       | 100.00%    | \$0.00              | 36               | \$1,728.00         |
| 6   | Remove & Replace Curb                             | LF   | \$28.00                   | 140      | \$3,920.00    | 140      | \$3,920.00       | 100.00%    | \$0.00              | 140              | \$3,920.00         |
| 7   | Remove & Replace Curb (for Pump)                  | LF   | \$0.00                    | 267      | \$0.00        | 267      | \$0.00           | 100.00%    | \$0.00              | 267              | \$0.00             |
|   | Road  | LS   | \$150.00                  | 1        | \$150.00      | 1        | \$150.00         | 100.00%    | \$0.00              | 1                | \$150.00           |
|   | Sales Tax   | LS   | \$741.65                  | 1        | \$741.65      | 1        | \$741.65         | 100.00%    | \$0.00              | 1                | \$741.65           |
|   |   |      |                           |          |               |          |                  |            | Subtotal            |                  | \$15,004.65        |
| <b>Change Order #10</b>                           |   |      |                           |          |               |          |                  |            |                     |                  |                    |
| 1   | Asphalt & Paving Office                           | LS   | \$18,051.38               | 1        | \$18,051.38   | 1        | \$18,051.38      | 100.00%    | \$0.00              | 1                | \$18,051.38        |
| 2   | Allowance (Ded) to original contract              | LS   | (\$17,800.00)             | 1        | (\$17,800.00) | 1        | (\$17,800.00)    | 100.00%    | \$0.00              | 1                | (\$17,800.00)      |
|   | Road  | LS   | \$12.34                   | 1        | \$12.34       | 1        | \$12.34          | 100.00%    | \$0.00              | 1                | \$12.34            |
|   | Sales Tax   | LS   | \$60.13                   | 1        | \$60.13       | 1        | \$60.13          | 100.00%    | \$0.00              | 1                | \$60.13            |
|   |   |      |                           |          |               |          |                  |            | Subtotal            |                  | \$1,313.85         |
| <b>REMARKS: Retention held on Change Order #8</b> |   |      |                           |          |               |          |                  |            |                     |                  |                    |
|   |   |      | Total Invoiced            |          | \$11,147.75   |          | \$2,514,308.29   |            | \$0.00              |                  | \$2,514,308.29     |
|   |   |      | Retainage                 | 10.00%   | (\$1,114.78)  |          | (\$1,114.78)     |            |                     |                  |                    |
|   |   |      | Net Invoiced              |          | \$10,032.97   |          | \$2,513,193.51   |            |                     |                  | \$2,513,193.51     |
|   |   |      | Less Prior Billings       |          |               |          | (\$2,538,791.24) |            |                     |                  | \$2,538,791.24     |
|   |   |      | Balance Due               |          | \$10,032.97   |          | \$10,032.97      |            |                     |                  | \$10,032.97        |
|   |   |      | Min. Charge/Credit        |          | \$0.00        |          | \$0.00           |            |                     |                  | \$0.00             |
|   |   |      | AMOUNT DUE TO US INVOICE: |          | \$10,032.97   |          | \$10,032.97      |            |                     |                  | \$10,032.97        |



1370 North 24th Street  
Phoenix, Arizona 85016-6277  
(602) 254-9179  
FAX (602) 254-1283

**PROJECT 3113** *Jackel and Hammond, RI Water Main Replacement*

PREPARED BY: **Adm. J. P. M.**

| ITEM | DESCRIPTION                              | UNIT | PRICE       | CURRENT BILLING |        | BILL-TO-DATE |                | % COMPLETE | BALANCE OF CONTRACT | PLANNED QUANTITY | SCHEDULE OF VALUES |
|------|--|------|-------------|-----------------|--------|--------------|----------------|------------|---------------------|------------------|--------------------|
|      |  |      |             | QUANTITY        | AMOUNT | QUANTITY     | AMOUNT         |            |                     |                  |                    |
| 1    | Mobilization / Demobilization            | EA   | \$12,500.00 | 0.00            |        | 2.00         | \$25,000.00    | 100.00%    | \$0.00              | 2                | \$25,000.00        |
| 2    | Removal, replace, replace AC pavement    | SY   | \$25.00     | 0.00            |        | 2,802.00     | \$72,550.00    | 100.00%    | \$0.00              | 2802             | \$72,550.00        |
| 3    | 24" DIP & Slope                          | LF   | \$155.00    | 0.00            |        | 1,455.00     | \$224,475.00   | 100.00%    | \$0.00              | 1455             | \$224,475.00       |
| 4    | 20" DIP & Slope                          | LF   | \$179.00    | 0.00            |        | 48.00        | \$8,294.00     | 100.00%    | \$0.00              | 48               | \$8,294.00         |
| 5    | 18" DIP & Slope                          | LF   | \$187.50    | 0.00            |        | 6,585.00     | \$1,235,737.50 | 100.00%    | \$0.00              | 6585             | \$1,235,737.50     |
| 6    | 12" DIP & Slope                          | LF   | \$185.00    | 0.00            |        | 101.00       | \$18,685.00    | 100.00%    | \$0.00              | 101              | \$18,685.00        |
| 7    | 8" DIP & Slope                           | LF   | \$370.00    | 0.00            |        | 19.00        | \$7,030.00     | 100.00%    | \$0.00              | 19               | \$7,030.00         |
| 8    | 6" DIP & Slope                           | LF   | \$250.00    | 0.00            |        | 288.00       | \$72,000.00    | 100.00%    | \$0.00              | 288              | \$72,000.00        |
| 9    | 24" 18" valve of 8" bypass complete      | EA   | \$13,200.00 | 0.00            |        | 2.00         | \$26,400.00    | 100.00%    | \$0.00              | 2                | \$26,400.00        |
| 10   | 20" 18" valve of 8" bypass complete      | EA   | \$12,500.00 | 0.00            |        | 1.00         | \$12,500.00    | 100.00%    | \$0.00              | 1                | \$12,500.00        |
| 11   | 18" Gate valve of 18" bypass complete    | EA   | \$8,075.00  | 0.00            |        | 12.00        | \$116,900.00   | 100.00%    | \$0.00              | 12               | \$116,900.00       |
| 12   | 18" x 18" FL valve box & cover           | EA   | \$8,300.00  | 0.00            |        | 1.00         | \$8,300.00     | 100.00%    | \$0.00              | 1                | \$8,300.00         |
| 13   | 12" x 12" FL valve box & cover           | EA   | \$4,300.00  | 0.00            |        | 2.00         | \$8,600.00     | 100.00%    | \$0.00              | 2                | \$8,600.00         |
| 14   | 8" x 8" FL valve box & cover             | EA   | \$2,500.00  | 0.00            |        | 1.00         | \$2,500.00     | 100.00%    | \$0.00              | 1                | \$2,500.00         |
| 15   | 6" x 6" FL valve box & cover             | EA   | \$2,100.00  | 0.00            |        | 3.00         | \$6,300.00     | 100.00%    | \$0.00              | 3                | \$6,300.00         |
| 16   | 4" x 4" FL valve box & cover             | EA   | \$2,050.00  | 0.00            |        | 7.00         | \$14,350.00    | 100.00%    | \$0.00              | 7                | \$14,350.00        |
| 17   | 24" topped cap and 2" P comp.            | EA   | \$1,250.00  | 0.00            |        | 1.00         | \$1,250.00     | 100.00%    | \$0.00              | 1                | \$1,250.00         |
| 18   | 20" topped cap and 2" P comp.            | EA   | \$1,125.00  | 0.00            |        | 1.00         | \$1,125.00     | 100.00%    | \$0.00              | 1                | \$1,125.00         |
| 19   | 18" topped cap and 2" P comp.            | EA   | \$800.00    | 0.00            |        | 1.00         | \$800.00       | 100.00%    | \$0.00              | 1                | \$800.00           |
| 20   | 6" line liftout of 8" VMEC               | EA   | \$3,000.00  | 0.00            |        | 21.00        | \$63,000.00    | 100.00%    | \$0.00              | 21               | \$63,000.00        |
| 21   | Cut out and plug under man               | EA   | \$2,200.00  | 0.00            |        | 20.00        | \$44,000.00    | 100.00%    | \$0.00              | 20               | \$44,000.00        |
| 22   | Water valve removed                      | EA   | \$250.00    | 0.00            |        | 22.00        | \$5,500.00     | 100.00%    | \$0.00              | 22               | \$5,500.00         |
| 23   | 1" water service, main to meter          | EA   | \$700.00    | 0.00            |        | 28.00        | \$19,600.00    | 100.00%    | \$0.00              | 28               | \$19,600.00        |
| 24   | Pavement marking: 4" double yellow paint | LF   | \$0.85      | 0.00            |        | 6,700.00     | \$5,695.00     | 100.00%    | \$0.00              | 6700             | \$5,695.00         |
| 25   | Pavement marking: 8" solid white paint   | LF   | \$0.85      | 0.00            |        | 200.00       | \$170.00       | 100.00%    | \$0.00              | 200              | \$170.00           |
| 26   | Pavement marking: 12" solid white paint  | LF   | \$3.50      | 0.00            |        | 644.00       | \$2,254.00     | 100.00%    | \$0.00              | 644              | \$2,254.00         |
| 27   | Asphalt slurry seal                      | SY   | \$1.35      | 0.00            |        | 29,833.00    | \$40,274.55    | 100.00%    | \$0.00              | 29833            | \$40,274.55        |
| 28   | Traffic control                          | LS   | \$18,000.00 | 0.00            |        | 1.00         | \$18,000.00    | 100.00%    | \$0.00              | 1                | \$18,000.00        |
| 29   | Traffic officer                          | LS   | \$7,000.00  | 0.00            |        | 1.00         | \$7,000.00     | 100.00%    | \$0.00              | 1                | \$7,               |



WHEELER CONSTRUCTION, INC.  
P. O. Box 5277  
1070 North 34th Street  
Phoenix, Arizona 85016-5277  
(602) 254-3170  
FAX (602) 254-3220

CONTRACTOR'S BILLING

INVOICE NO. 19836.13

PAGE 1 OF 1

NAME Arizona American Water Company  
ADDRESS 19830 North 7th Street  
Suite 200  
Phoenix, AZ 85016

DATE 06/28/2005  
PERIOD ENDING 05/30/2005

PREPARED BY Aubrey / Phil

PROJECT 29140 Jacksonville & Irvington Rd. Water Study Replacement

| ITEM                       | DESCRIPTION                                    | UNIT | PRICE       | QUANTITY | AMOUNT      | QUANTITY | AMOUNT       | % COMPLETE | BALANCE OF CONTRACT | PLANNED QUANTITY | SCHEDULE OF VALUES |
|----------------------------|--|------|-------------|----------|-------------|----------|--------------|------------|---------------------|------------------|--------------------|
| Change Order 83            |  |      |             |          |             |          |              |            |                     |                  |                    |
| 1                          | Mobilization / Demobilization                  | EA   | \$7,500.00  |          | \$7,500.00  | 2.00     | \$15,000.00  | 100.00%    | \$0.00              | 2                | \$15,000.00        |
| 2                          | Construction Survey                            | LS   | \$6,500.00  |          | \$6,500.00  | 1.00     | \$6,500.00   | 100.00%    | \$0.00              | 1                | \$6,500.00         |
| 3                          | Construction Testing                           | LS   | \$7,200.00  |          | \$7,200.00  | 1.00     | \$7,200.00   | 100.00%    | \$0.00              | 1                | \$7,200.00         |
| 4                          | Traffic control devices (advance)              | LS   | \$20,000.00 | 0.25     | \$5,000.00  | 1.00     | \$20,000.00  | 100.00%    | \$0.00              | 1                | \$20,000.00        |
| 5                          | Police officer / Certified Flagman (advance)   | HR   | \$50.00     | 50.00    | \$2,500.00  | 100.00   | \$5,000.00   | 100.00%    | \$0.00              | 100              | \$5,000.00         |
| 6                          | Police vehicle (advance)                       | LS   | \$5,000.00  |          | \$5,000.00  | 1.00     | \$5,000.00   | 100.00%    | \$0.00              | 1                | \$5,000.00         |
| 7                          | 18" PC200 Reinforced joint ductile iron pipe   | LF   | \$128.00    |          | \$0.00      | 2,400.00 | \$307,200.00 | 100.00%    | \$0.00              | 2400             | \$307,200.00       |
| 8                          | Reinforced Manhole (Pipe, Valves, Fittings)    | LF   | \$20,400.00 |          | \$0.00      | 0.00     | \$0.00       | 0%         | \$0.00              | 0                | \$0.00             |
| 9                          | 18" Vertical manhole                           | EA   | \$4,800.00  |          | \$0.00      | 3.00     | \$14,400.00  | 100.00%    | \$0.00              | 3                | \$14,400.00        |
| 10                         | 18" Vertical manhole                           | EA   | \$2,500.00  |          | \$0.00      | 1.00     | \$2,500.00   | 100.00%    | \$0.00              | 1                | \$2,500.00         |
| 11                         | 18" Vertical manhole                           | EA   | \$2,500.00  |          | \$0.00      | 1.00     | \$2,500.00   | 100.00%    | \$0.00              | 1                | \$2,500.00         |
| 12                         | Remove 18" cap & connect to existing main      | EA   | \$200.00    |          | \$0.00      | 1.00     | \$200.00     | 100.00%    | \$0.00              | 1                | \$200.00           |
| 13                         | 30" x 18" Jacket steel casing                  | LF   | \$720.00    |          | \$0.00      | 65.00    | \$46,800.00  | 100.00%    | \$0.00              | 65               | \$46,800.00        |
| 14                         | 18" PC200 Reinforced joint ductile iron pipe   | LF   | \$145.00    |          | \$0.00      | 65       | \$9,425.00   | 100.00%    | \$0.00              | 65               | \$9,425.00         |
| 15                         | 18" PC200 Reinforced joint ductile iron pipe   | LF   | \$132.00    |          | \$0.00      | 72       | \$9,504.00   | 100.00%    | \$0.00              | 72               | \$9,504.00         |
| 16                         | 18" Gate valve and bypass complete             | EA   | \$10,400.00 |          | \$0.00      | 5.00     | \$52,000.00  | 100.00%    | \$0.00              | 5                | \$52,000.00        |
| 17                         | 18" Gate Valve with box and cover              | EA   | \$775.00    |          | \$0.00      | 2        | \$1,550.00   | 100.00%    | \$0.00              | 2                | \$1,550.00         |
| 18                         | 18" 18" 18" valve box & cover                  | EA   | \$2,775.00  |          | \$0.00      | 1        | \$2,775.00   | 100.00%    | \$0.00              | 1                | \$2,775.00         |
| 19                         | 18" 18" 18" valve box & cover                  | EA   | \$2,350.00  |          | \$0.00      | 2        | \$4,700.00   | 100.00%    | \$0.00              | 2                | \$4,700.00         |
| 20                         | 2" Water service replacement                   | EA   | \$1,000.00  |          | \$0.00      | 5        | \$5,000.00   | 100.00%    | \$0.00              | 5                | \$5,000.00         |
| 21                         | 18" Gate valve complete on bypass assembly     | EA   | \$4,200.00  |          | \$0.00      | 4.00     | \$16,800.00  | 100.00%    | \$0.00              | 4                | \$16,800.00        |
| 22                         | Out cut and plug water main                    | EA   | \$2,700.00  | 1.00     | \$2,700.00  | 4.00     | \$10,800.00  | 100.00%    | \$0.00              | 4                | \$10,800.00        |
| 23                         | 18" x 2" AWWA 200-1 Invert                     | EA   | \$225.00    |          | \$0.00      | 1.00     | \$225.00     | 100.00%    | \$0.00              | 1                | \$225.00           |
| 24                         | Remove existing valve box, install of ABC      | EA   | \$230.00    |          | \$0.00      | 10       | \$2,300.00   | 100.00%    | \$0.00              | 10               | \$2,300.00         |
| 25                         | Remove existing low hydrant & valves           | EA   | \$400.00    |          | \$0.00      | 1        | \$400.00     | 100.00%    | \$0.00              | 1                | \$400.00           |
| 26                         | Temporary pressure replacement 3" C-30 Wp      | SV   | \$24.00     |          | \$0.00      | 2,400.00 | \$57,600.00  | 100.00%    | \$0.00              | 2400             | \$57,600.00        |
| 27                         | Adjust new water valves to grade               | EA   | \$210.00    |          | \$0.00      | 8.00     | \$1,680.00   | 100.00%    | \$0.00              | 8                | \$1,680.00         |
| 28                         | Excavate 18" water main 184-404-1 & 404-2      | LF   | \$25.00     |          | \$0.00      | 20.00    | \$500.00     | 100.00%    | \$0.00              | 20               | \$500.00           |
| 29                         | Excavate 12" WCP sewer 184-404-1 & 404-2       | LF   | \$40.00     |          | \$0.00      | 20.00    | \$800.00     | 100.00%    | \$0.00              | 20               | \$800.00           |
| 30                         | Remove & Replace Curb                          | LF   | \$20.00     |          | \$0.00      | 60.00    | \$1,200.00   | 100.00%    | \$0.00              | 60               | \$1,200.00         |
| 31                         | Remove & Replace Sidewalk                      | SF   | \$0.00      |          | \$0.00      | 300.00   | \$0.00       | 100.00%    | \$0.00              | 300              | \$0.00             |
| 32                         | Heavy Steel McDonald Drive                     | SY   | \$2.00      |          | \$0.00      | 2,475.00 | \$4,950.00   | 100.00%    | \$0.00              | 2475             | \$4,950.00         |
| 33                         | Drilling & Installing (Install McDonald Drive) | LS   | \$750.00    |          | \$0.00      | 1.00     | \$750.00     | 100.00%    | \$0.00              | 1                | \$750.00           |
|                            | Concrete Road                                  | LS   | \$8,572.35  |          | \$0.00      | 1.00     | \$8,572.35   | 100.00%    | \$0.00              | 1                | \$8,572.35         |
|                            | Sub Total                                      | LS   | \$32,770.07 | 1.00%    | \$327.70    |          | \$32,770.07  | 100.00%    | \$0.00              | 1                | \$32,770.07        |
| Change Order 84 Roadwork   |  |      |             |          |             |          |              |            |                     |                  |                    |
| 1                          | Total cost for SSC                             | LS   | \$65,637.00 |          | \$0.00      | 1        | \$65,637.00  | 100.00%    | \$0.00              | 1                | \$65,637.00        |
| 2                          | Credit for item 902 to CO 15                   | LS   | \$48,800.00 |          | \$48,800.00 | 1        | \$48,800.00  | 100.00%    | \$0.00              | 1                | \$48,800.00        |
|                            | Sub Total                                      | LS   | \$16,837.00 |          | \$16,837.00 | 1        | \$16,837.00  | 100.00%    | \$0.00              | 1                | \$16,837.00        |
| Change Order 85 Difference |  |      |             |          |             |          |              |            |                     |                  |                    |
| 1                          | Deduct for actual cost for SSC                 | LS   | \$12,983.50 |          | \$12,983.50 | 1        | \$12,983.50  | 100.00%    | \$0.00              | 1                | \$12,983.50        |
|                            | Deduct for actual cost for road                | LS   | \$331.70    |          | \$331.70    | 1        | \$331.70     | 100.00%    | \$0.00              | 1                | \$331.70           |
|                            | Deduct for actual cost for man hole            | LS   | \$155.82    |          | \$155.82    | 1        | \$155.82     | 100.00%    | \$0.00              | 1                | \$155.82           |
| Change Order 86            |  |      |             |          |             |          |              |            |                     |                  |                    |
| 1                          | Sanitation & Police Officer                    | LS   | \$84,200.00 |          | \$0.00      | 1        | \$84,200.00  | 100.00%    | \$0.00              | 1                | \$84,200.00        |
| 2                          | Attorney billed to CO 81 & 82                  | LS   | \$80,800.00 |          | \$0.00      | 1        | \$80,800.00  | 100.00%    | \$0.00              | 1                | \$80,800.00        |
|                            | Sub Total                                      | LS   | \$1,220.10  |          | \$1,220.10  | 1        | \$1,220.10   | 100.00%    | \$0.00              | 1                | \$1,220.10         |
| Change Order 89 Difference |  |      |             |          |             |          |              |            |                     |                  |                    |
| 1                          | Add actual cost of Sanitation & Police Officer | LS   | \$3,827.70  |          | \$3,827.70  | 1        | \$3,827.70   | 100.00%    | \$0.00              | 1                | \$3,827.70         |
|                            | Sub Total                                      | LS   | \$197.42    |          | \$197.42    | 1        | \$197.42     | 100.00%    | \$0.00              | 1                | \$197.42           |
| Change Order 90            |  |      |             |          |             |          |              |            |                     |                  |                    |
| 1                          | Additional cost for San hydrant                | LS   | \$2,677.70  |          | \$2,677.70  | 1        | \$2,677.70   | 100.00%    | \$0.00              | 1                | \$2,677.70         |
|                            | Sub Total                                      | LS   | \$26.50     |          | \$26.50     | 1        | \$26.50      | 100.00%    | \$0.00              | 1                | \$26.50            |
|                            | Sub Total                                      | LS   | \$190.30    |          | \$190.30    | 1        | \$190.30     | 100.00%    | \$0.00              | 1                | \$190.30           |

## **EXHIBIT JMR-RB3**

Workpaper and rate base summary from docket No. W-01303A-  
98-0507 – Paradise Valley's previous rate case

Paradise Valley Water Company  
General Rate Case Application  
Working Cash Allowance - Other Deferred Items

| <u>Total Deferred Items per T/B 06/30/98</u> | <u>Amounts</u> |
|--|----------------|
| Deferred Programmed Maintenance              | \$272,439.45   |
| Preliminary Financing Expense                | \$7,387.52     |
| Deferred TMS License Fees                    | \$144.00       |
| Deferred Service Co Pension                  | \$11,794.00    |
| Miscellaneous Minor Debit                    | \$3,795.00     |
| Deferred Pension Payment                     | \$70,470.00    |
| Maintenance Work In Progress                 | \$1,698.37     |
| Undistributed Items                          | \$362.88       |
| Depreciation Study Expense                   | \$3,542.00     |
| Extraordinary Maintenance                    | \$4,609.00     |
| Deferred Debits CAP                          | \$104,374.92   |
| Retirement Work In Progress                  | \$48,529.33    |
| M&J Work In Progress                         | (\$23,685.67)  |
| <u>Total</u>                                 | \$505,460.80   |
| <u>Adjustments</u>                           |                |
| Preliminary Financing Expense                | \$7,387.52     |
| Deferred Service Co Pension                  | \$11,794.00    |
| Miscellaneous Minor Debit                    | \$3,795.00     |
| Deferred Pension Payment                     | \$70,470.00    |
| Maintenance Work In Progress                 | \$1,698.37     |
| Undistributed Items                          | \$362.88       |
| Extraordinary Maintenance                    | \$4,609.00     |
| Deferred Debits CAP                          | \$104,374.92   |
| Retirement Work In Progress                  | \$48,529.33    |
| M&J Work In Progress                         | (\$23,685.67)  |
| Sub-Total                                    | \$229,335.35   |
| <u>Adjusted Deferred Items</u>               | \$276,125.45   |

Miscellaneous  
Items

# PARADISE VALLEY WATER COMPANY

## DETAIL RATE BASE CALCULATION

|                               | <u>Per Filing</u>   | <u>Per Order</u>    |
|-------------------------------|---------------------|---------------------|
| Utility Plant in Service      | \$26,526,848        | \$25,900,450        |
| Construction Work in Progress | \$0                 | \$0                 |
| Accumulated Depreciation      | (\$3,249,181)       | (\$3,297,629)       |
| Accumulated Amortization      | \$0                 | \$0                 |
| Other (Reg Asset Net of Depr) | \$1,418             | \$1,418             |
| Net Utility Plant             | <u>\$23,279,085</u> | <u>\$22,604,239</u> |
| Deduct:                       |                     |                     |
| Customer Advances             | \$247,807           | \$238,807           |
| Contributions                 | \$9,669,687         | \$9,646,967         |
| Other (Customer Deposit)      | \$1,590             | \$1,590             |
| Subtotal Deducted             | <u>\$9,919,084</u>  | <u>\$9,887,364</u>  |
| Add:                          |                     |                     |
| Materials & Supplies          | \$27,165            | \$27,165            |
| Tank Painting                 | \$0                 | \$0                 |
| Cash Working Capital          | (\$58,845)          | (\$58,845)          |
| Prepayments                   | \$45,092            | \$16,192            |
| Other (Deferred Debits)       | \$276,125           | \$254,701           |
| Subtotal Added                | <u>\$289,537</u>    | <u>\$239,213</u>    |
| Deduct:                       |                     |                     |
| Deferred Taxes (FIT/SIT)      | \$1,458,329         | \$1,458,329         |
| Deferred SIT                  | \$0                 | \$0                 |
| Other                         | \$0                 | \$0                 |
| Subtotal                      | <u>\$1,458,329</u>  | <u>\$1,458,329</u>  |
| Total Rate Base               | <u>\$12,191,209</u> | <u>\$11,497,759</u> |

# **EXHIBIT JMR-RB4**

Corrected Lead/Lag Study

PARADISE VALLEY

| Line<br>No. |                                       | Test Year<br>Adjusted<br>Results | Revenue<br>Lag<br>Days <sup>3</sup> | Expense<br>Lag<br>Days | Net<br>Lag<br>Days | Lead/<br>Lag<br>Factor | Cash<br>Working<br>Capital<br>Required |
|-------------|---------------------------------------|----------------------------------|-------------------------------------|------------------------|--------------------|------------------------|--|
| 1           | OPERATING EXPENSES                    |                                  |                                     |                        |                    |                        |  |
| 2           | Labor                                 | \$ 527,708                       | 38.3000                             | 12.0000                | 26.3000            | 0.0721                 | \$ 38,024                              |
| 3           | Fuel & Power                          | 827,908                          | 38.3000                             | 38.1148                | 0.1852             | 0.0005                 | 420                                    |
| 4           | Chemicals                             | 16,499                           | 38.3000                             | 30.0000                | 8.3000             | 0.0227                 | 375                                    |
| 5           | Management Fees                       | 554,302                          | 38.3000                             | (3.8800)               | 42.1800            | 0.1156                 | 64,056                                 |
| 6           | Group Insurance                       | 117,720                          | 38.3000                             | (4.6445)               | 42.9445            | 0.1177                 | 13,850                                 |
| 7           | Pensions                              | 26,625                           | 38.3000                             | 45.0000                | (6.7000)           | (0.0184)               | (489)                                  |
| 8           | Insurance Other Than Group            | 48,923                           | 38.3000                             | 45.0000                | (6.7000)           | (0.0184)               | (898)                                  |
| 10          | Rents                                 | 64,878                           | 38.3000                             | (10.6818)              | 48.9818            | 0.1342                 | 8,706                                  |
| 11          | Depreciation & Amortization           | 799,234                          | 38.3000                             | -                      | 38.3000            | 0.1049                 | 83,865                                 |
| 12          | Other Operating Expenses <sup>1</sup> | 655,707                          | 38.3000                             | 30.0000                | 8.3000             | 0.0227                 | 14,911                                 |
| 13          | TAXES                                 |                                  |                                     |                        |                    |                        |  |
| 14          | Taxes Other than Income               | 42,405                           | 38.3000                             | 26.3188                | 11.9812            | 0.0328                 | 1,392                                  |
| 15          | Property Taxes                        | 216,214                          | 38.3000                             | 177.5000               | (139.2000)         | (0.3814)               | (82,458)                               |
| 16          | Income Tax <sup>2</sup>               | 420,233                          | 38.3000                             | 37.0000                | 1.3000             | 0.0036                 | 1,497                                  |
| 17          | RETURN                                |                                  |                                     |                        |                    |                        |  |
| 18          | Interest on Debt <sup>4</sup>         | 520,071                          | 38.3000                             | 107.2300               | (68.9300)          | (0.1888)               | (98,215)                               |
| 19          | Return on Equity                      | 668,485                          | 38.3000                             | -                      | 38.3000            | 0.1049                 | 70,145                                 |
| 20          |                                       |                                  |                                     |                        |                    |                        |  |
| 21          |                                       |                                  |                                     |                        |                    |                        |  |
| 22          |                                       |                                  |                                     |                        |                    |                        |  |
| 23          |                                       |                                  |                                     |                        |                    |                        |  |
| 24          | WORKING CASH REQUIREMENT              |                                  |                                     |                        |                    |                        | \$ 115,182                             |

<sup>1</sup>All other Operating Expenses are assumed to be paid by the 15th of the month following the receipt of goods and services.

<sup>2</sup>At proposed rates.

<sup>3</sup>Per direct testimony of RUCO witness Colby.

<sup>4</sup>Expense lag days per direct testimony of RUCO witness Colby.

| Line<br>No. | MANAGEMENT SERVICES |                |   | Date<br>Paid | Service Period |            | Avg Service<br>Period | Lag<br>(Lead) | Dollar Days     |
|-------------|---------------------|----------------|---|--------------|----------------|------------|-----------------------|---------------|-----------------|
|             | Date                | Amount         | Description                                   |              | From           | To         |                       |               |                 |
| 1           |                     |                |   |              |                |            |                       |               |                 |
| 2           |                     |                |   |              |                |            |                       |               |                 |
| 3           |                     |                |   |              |                |            |                       |               |                 |
| 4           |                     |                |   |              |                |            |                       |               |                 |
| 5           |                     |                |   |              |                |            |                       |               |                 |
| 6           |                     |                |   |              |                |            |                       |               |                 |
| 7           |                     |                |   |              |                |            |                       |               |                 |
| 8           | 7/23/2004           | 638,329.26     | Current Month's actual and est for next month |              | 7/24/2004      | 8/20/2004  | 13.50                 | (5.50)        | (3,510,810.93)  |
| 9           |                     | (788,524.21)   | Last Mo's est of this month's billing         |              |                |            |                       |               |                 |
| 10          |                     | (150,194.95)   | Net Amt Payable (Receivable)                  |              | 6/26/2004      | 7/23/2004  | 13.50                 | 22.50         | (3,379,386.38)  |
| 11          |                     | 488,134.31     | Paid in following month                       | 8/1/2004     |                |            |                       |               |                 |
| 12          |                     |                |   |              |                |            |                       |               |                 |
| 13          |                     |                |   |              |                |            |                       |               |                 |
| 14          | 8/20/2004           | 584,740.29     | Current Month's actual and est for next month |              | 8/21/2004      | 9/24/2004  | 17.00                 | (6.00)        | (3,508,441.74)  |
| 15          |                     | (638,329.26)   | Last Mo's est of this month's billing         |              |                |            |                       |               |                 |
| 16          |                     | (53,588.97)    | Net Amt Payable (Receivable)                  |              | 7/24/2004      | 8/20/2004  | 13.50                 | 25.50         | (1,366,518.74)  |
| 17          |                     | 531,151.32     | Paid in following month                       | 9/1/2004     |                |            |                       |               |                 |
| 18          |                     |                |   |              |                |            |                       |               |                 |
| 19          |                     |                |   |              |                |            |                       |               |                 |
| 20          | 9/24/2004           | 347,119.04     | Current Month's actual and est for next month |              | 9/25/2004      | 10/22/2004 | 13.50                 | (7.50)        | (2,603,392.80)  |
| 21          |                     | (584,740.29)   | Last Mo's est of this month's billing         |              |                |            |                       |               |                 |
| 22          |                     | (237,621.25)   | Net Amt Payable (Receivable)                  |              | 8/21/2004      | 9/24/2004  | 17.00                 | 24.00         | (5,702,910.00)  |
| 23          |                     | 109,497.79     | Paid in following month                       | 10/1/2004    |                |            |                       |               |                 |
| 24          |                     |                |   |              |                |            |                       |               |                 |
| 25          |                     |                |   |              |                |            |                       |               |                 |
| 26          | 10/22/2004          | 628,855.43     | Current Month's actual and est for next month |              | 10/23/2004     | 11/19/2004 | 13.50                 | (4.50)        | (2,829,849.44)  |
| 27          |                     | (347,119.04)   | Last Mo's est of this month's billing         |              |                |            |                       |               |                 |
| 28          |                     | 281,736.39     | Net Amt Payable (Receivable)                  |              | 9/25/2004      | 10/22/2004 | 13.50                 | 23.50         | 6,620,805.17    |
| 29          |                     | 910,591.82     | Paid in following month                       | 11/1/2004    |                |            |                       |               |                 |
| 30          |                     |                |   |              |                |            |                       |               |                 |
| 31          |                     |                |   |              |                |            |                       |               |                 |
| 32          | 11/19/2004          | 560,393.05     | Current Month's actual and est for next month |              | 11/20/2004     | 12/10/2004 | 10.00                 | 1.00          | 560,393.05      |
| 33          |                     | (628,855.43)   | Last Mo's est of this month's billing         |              |                |            |                       |               |                 |
| 34          |                     | (68,462.38)    | Net Amt Payable (Receivable)                  |              | 10/23/2004     | 11/19/2004 | 13.50                 | 25.50         | (1,745,790.69)  |
| 35          |                     | 491,930.67     | Paid in following month                       | 12/1/2004    |                |            |                       |               |                 |
| 36          |                     |                |   |              |                |            |                       |               |                 |
| 37          |                     |                |   |              |                |            |                       |               |                 |
| 38          | 12/10/2004          | 1,929,163.36   | Current Month's actual and est for next month |              | 12/11/2004     | 1/21/2005  | 20.50                 | 0.50          | 964,581.68      |
| 39          |                     | (560,393.05)   | Last Mo's est of this month's billing         |              |                |            |                       |               |                 |
| 40          |                     | 1,368,770.31   | Net Amt Payable (Receivable)                  |              | 11/20/2004     | 12/10/2004 | 10.00                 | 32.00         | 43,800,649.92   |
| 41          |                     | 3,297,933.67   | Paid in following month                       | 1/1/2005     |                |            |                       |               |                 |
| 42          |                     |                |   |              |                |            |                       |               |                 |
| 43          |                     |                |   |              |                |            |                       |               |                 |
| 44          | 1/21/2005           | 616,818.16     | Current Month's actual and est for next month |              | 1/22/2005      | 2/18/2005  | 13.50                 | (3.50)        | (2,158,863.56)  |
| 45          |                     | (1,929,163.36) | Last Mo's est of this month's billing         |              |                |            |                       |               |                 |
| 46          |                     | (1,312,345.20) | Net Amt Payable (Receivable)                  |              | 12/11/2004     | 1/21/2005  | 20.50                 | 31.50         | (41,338,873.80) |
| 47          |                     | (695,527.04)   | Paid in following month                       | 2/1/2005     |                |            |                       |               |                 |
| 48          |                     |                |   |              |                |            |                       |               |                 |
| 49          |                     |                |   |              |                |            |                       |               |                 |
| 50          | 2/18/2005           | 823,217.55     | Current Month's actual and est for next month |              | 2/19/2005      | 3/25/2005  | 17.00                 | (7.00)        | (5,762,522.85)  |
| 51          |                     | (616,818.16)   | Last Mo's est of this month's billing         |              |                |            |                       |               |                 |
| 52          |                     | 206,399.39     | Net Amt Payable (Receivable)                  |              | 1/22/2005      | 2/18/2005  | 13.50                 | 24.50         | 5,056,785.06    |
| 53          |                     | 1,029,616.94   | Paid in following month                       | 3/1/2005     |                |            |                       |               |                 |
| 54          |                     |                |   |              |                |            |                       |               |                 |
| 55          |                     |                |   |              |                |            |                       |               |                 |
| 56          | 3/25/2005           | 665,872.01     | Current Month's actual and est for next month |              | 3/26/2005      | 4/22/2005  | 13.50                 | (7.50)        | (4,994,040.08)  |

| Line No. |           |  |          |                                      |           |       |        |                        |
|----------|-----------|--|----------|--------------------------------------|-----------|-------|--------|------------------------|
| 1        |           | (823,217.55) Last Mo's est of this month's billing         |          |                                      |           |       |        |                        |
| 2        |           | (157,345.54) Net Amt Payable (Receivable)                  |          | 2/19/2005                            | 3/25/2005 | 17.00 | 24.00  | (3,776,292.96)         |
| 3        |           | 508,526.47 Paid in following month                         | 4/1/2005 |                                      |           |       |        |                        |
| 4        |           |  |          |                                      |           |       |        |                        |
| 5        |           |  |          |                                      |           |       |        |                        |
| 6        | 4/22/2005 | 1,046,328.81 Current Month's actual and est for next month |          | 4/23/2005                            | 5/20/2005 | 13.50 | (5.50) | (5,754,808.46)         |
| 7        |           | (665,872.01) Last Mo's est of this month's billing         |          |                                      |           |       |        |                        |
| 8        |           | 380,456.80 Net Amt Payable (Receivable)                    |          | 3/26/2005                            | 4/22/2005 | 13.50 | 22.50  | 8,560,278.00           |
| 9        |           | 1,426,785.61 Paid in following month                       | 5/1/2005 |                                      |           |       |        |                        |
| 10       |           |  |          |                                      |           |       |        |                        |
| 11       |           |  |          |                                      |           |       |        |                        |
| 12       | 5/20/2005 | 808,789.58 Current Month's actual and est for next month   |          | 5/21/2005                            | 6/24/2005 | 17.00 | (6.00) | (4,852,737.48)         |
| 13       |           | (1,046,328.81) Last Mo's est of this month's billing       |          |                                      |           |       |        |                        |
| 14       |           | (237,539.23) Net Amt Payable (Receivable)                  |          | 4/23/2005                            | 5/20/2005 | 13.50 | 25.50  | (6,057,250.37)         |
| 15       |           | 571,250.35 Paid in following month                         | 6/1/2005 |                                      |           |       |        |                        |
| 16       |           |  |          |                                      |           |       |        |                        |
| 17       |           |  |          |                                      |           |       |        |                        |
| 18       | 6/24/2005 | 933,333.69 Current Month's actual and est for next month   |          | 6/25/2005                            | 7/22/2005 | 13.50 | (7.50) | (7,000,002.68)         |
| 19       |           | (808,789.58) Last Mo's est of this month's billing         |          |                                      |           |       |        |                        |
| 20       |           | 124,544.11 Net Amt Payable (Receivable)                    |          | 5/21/2005                            | 6/24/2005 | 17.00 | 24.00  | 2,989,058.64           |
| 21       |           | 1,057,877.80 Paid in following month                       | 7/1/2005 |                                      |           |       |        |                        |
| 22       |           |  |          |                                      |           |       |        |                        |
| 23       |           | <u>9,727,769.71</u>  |          |                                      |           |       |        | <u>(37,789,941.44)</u> |
| 24       |           |  |          |                                      |           |       |        |                        |
| 25       |           |  |          |                                      |           |       |        |                        |
| 26       |           |  |          |                                      |           |       |        |                        |
| 27       |           |  |          |                                      |           |       |        |                        |
|          |           |  |          | Average Lag for Managements Services |           |       |        | <u>(3.88)</u>          |



| Line No. | GROUP INSURANCE |          |                       |                |            |                    |          |                 |                        |                          |
|----------|-----------------|----------|-----------------------|----------------|------------|--------------------|----------|-----------------|------------------------|--------------------------|
|          | Account         | Voucher  | Amount                | Service Period |            | Avg Service Period | Lag/Lead | Dollars Days    | Cumulative Total       | Percent to Total         |
|          |                 |          |                       | From           | To         |                    |          |                 |                        |                          |
| 8        | 230105.5041     | 40819333 | 8/9/2004 \$ 92,066.72 | 8/1/2004       | 8/31/2004  | 15.00              | (7.00)   | \$ (644,467.04) | \$ 1,222,884.46        | 100.00%                  |
| 9        | 230105.5041     | 40844147 | 9/10/2004 94,614.37   | 9/1/2004       | 9/30/2004  | 14.50              | (5.50)   | \$ (520,379.04) | \$ 1,130,817.74        | 92.47%                   |
| 10       | 230105.5041     | 40865008 | 10/6/2004 94,775.20   | 10/1/2004      | 10/31/2004 | 15.00              | (10.00)  | \$ (947,752.00) | \$ 1,036,203.37        | 84.73%                   |
| 11       | 230105.5041     | 40892506 | 11/10/2004 95,991.56  | 11/1/2004      | 11/30/2004 | 14.50              | (5.50)   | \$ (527,953.58) | \$ 941,428.17          | 76.98%                   |
| 12       | 230105.5041     | 40793100 | 7/9/2004 96,394.44    | 7/1/2004       | 7/31/2004  | 15.00              | (7.00)   | \$ (674,761.08) | \$ 845,436.61          | 69.13%                   |
| 13       | 230105.5041     | 40918840 | 12/9/2004 96,969.68   | 12/1/2004      | 12/31/2004 | 15.00              | (7.00)   | \$ (678,787.76) | \$ 749,042.17          | 61.25%                   |
| 14       | 230105.5041     | 41045598 | 5/16/2005 107,812.38  | 5/1/2005       | 5/31/2005  | 15.00              | -        | \$ -            | \$ 652,072.49          | 53.32%                   |
| 15       | 230105.5041     | 40967412 | 2/11/2005 108,216.85  | 2/1/2005       | 2/28/2005  | 13.50              | (3.50)   | \$ (378,758.98) | \$ 544,260.11          | 44.51%                   |
| 16       | 230105.5041     | 41068357 | 6/13/2005 108,413.73  | 6/1/2005       | 6/30/2005  | 14.50              | (2.50)   | \$ (271,034.33) | \$ 438,043.26          | 35.86%                   |
| 17       | 230105.5041     | 40943765 | 1/13/2005 108,554.84  | 1/1/2005       | 1/31/2005  | 15.00              | (3.00)   | \$ (325,864.52) | \$ 327,629.53          | 26.79%                   |
| 18       | 230105.5041     | 40992030 | 3/11/2005 109,000.17  | 3/1/2005       | 3/31/2005  | 15.00              | (5.00)   | \$ (545,000.85) | \$ 219,074.69          | 17.91%                   |
| 19       | 230105.5041     | 41018871 | 4/14/2005 110,074.52  | 4/1/2005       | 4/30/2005  | 14.50              | (1.50)   | \$ (165,111.78) | \$ 110,074.52          | 9.00%                    |
| 21       |                 |          |                       |                |            |                    |          |                 | <u>\$ 1,222,884.46</u> | <u>\$ (5,679,670.96)</u> |
| 22       |                 |          |                       |                |            |                    |          |                 |                        |                          |
| 23       |                 |          |                       |                |            |                    |          |                 |                        | <u>(4.64)</u>            |

Average Lag for Group Insurance

(4.64)

Line

No.

1 PENSIONS

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

Payment

Date

Amount

Service Period

From

To

Avg Service

Period

Lag

(Lead)

Dollar Days

- Pension expense is paid quarterly resulting in a 45 day lag.

Totals

\_\_\_\_\_

Average Lag for Pensions

\_\_\_\_\_

45.00

Line  
No.

1 INSURANCE OTHER THAN GROUP

| Payment<br>Date | Amount | Service Period<br>From To | Avg Service<br>Period | Lag<br>(Lead) | Dollar Days |
|-----------------|--------|---------------------------|-----------------------|---------------|-------------|
|-----------------|--------|---------------------------|-----------------------|---------------|-------------|

- Insurance Other than Group is paid quarterly resulting in a 45 day lag.

|        |      |   |  |      |       |
|--------|------|---|--|------|-------|
| Totals | \$ - |   |  | \$ - |       |
|        |      | Average Lag/(Lead) for Ins. Other than Grp. |  |      | 45.00 |

Exhibit JMR-RB4  
Schedule  
Page 6  
Witness: Reiker

| Line No. | RENTS       |          |          |                       |           |                    |          |                |                  |                  |
|----------|-------------|----------|----------|-----------------------|-----------|--------------------|----------|----------------|------------------|------------------|
|          | Account     | Voucher  | Amount   | Service Period From   | To        | Avg Service Period | Lag/Lead | Dollars Days   | Cumulative Total | Percent to Total |
| 7        | 230105.5100 | 40955368 | 02/05/05 | \$ 42.26              |           |                    |          |                | 141,054.86       |                  |
| 8        | 230105.5100 | 40976942 | 03/05/05 | 42.26                 |           |                    |          |                | 141,012.60       |                  |
| 9        | 230105.5100 | 41003985 | 04/05/05 | 42.26                 |           |                    |          |                | 140,970.34       |                  |
| 10       | 230105.5100 | 41026617 | 05/05/05 | 43.96                 |           |                    |          |                | 140,928.08       |                  |
| 11       | 230105.5100 | 41052726 | 06/05/05 | 43.96                 |           |                    |          |                | 140,884.12       |                  |
| 12       | 230105.5100 | 40783766 | 07/05/04 | 11,736.68             |           |                    |          |                | 140,840.16       |                  |
| 13       | 230105.5100 | 40806223 | 08/05/04 | 11,736.68             | 8/1/2004  | 8/31/2004          | 15.00    | (11.00)        | (129,103.48)     | 91.53%           |
| 14       | 230105.5100 | 40832634 | 09/05/04 | 11,736.68             | 9/1/2004  | 9/30/2004          | 14.50    | (10.50)        | (123,235.14)     | 83.21%           |
| 15       | 230105.5100 | 40857471 | 10/05/04 | 11,736.68             | 10/1/2004 | 10/31/2004         | 15.00    | (11.00)        | (129,103.48)     | 74.89%           |
| 16       | 230105.5100 | 40880059 | 11/05/04 | 11,736.68             | 11/1/2004 | 11/30/2004         | 14.50    | (10.50)        | (123,235.14)     | 66.57%           |
| 17       | 230105.5100 | 40903501 | 12/05/04 | 11,736.68             | 12/1/2004 | 12/31/2004         | 15.00    | (11.00)        | (129,103.48)     | 58.24%           |
| 18       | 230105.5100 | 40922174 | 01/05/05 | 11,736.68             | 1/1/2005  | 1/31/2005          | 15.00    | (11.00)        | (129,103.48)     | 49.92%           |
| 19       | 230105.5100 | 40955507 | 02/05/05 | 11,736.68             | 2/1/2005  | 2/28/2005          | 13.50    | (9.50)         | (111,498.46)     | 41.60%           |
| 20       | 230105.5100 | 40977094 | 03/05/05 | 11,736.68             | 3/1/2005  | 3/31/2005          | 15.00    | (11.00)        | (129,103.48)     | 33.28%           |
| 21       | 230105.5100 | 41004124 | 04/05/05 | 11,736.68             | 4/1/2005  | 4/30/2005          | 14.50    | (10.50)        | (123,235.14)     | 24.96%           |
| 22       | 230105.5100 | 41026752 | 05/05/05 | 11,736.68             | 5/1/2005  | 5/31/2005          | 15.00    | (11.00)        | (129,103.48)     | 16.64%           |
| 23       | 230105.5100 | 41052864 | 06/05/05 | 11,736.68             | 6/1/2005  | 6/30/2005          | 14.50    | (10.50)        | (123,235.14)     | 8.32%            |
| 24       |             |          |          |                       |           |                    |          |                |                  |                  |
| 25       |             |          |          | \$ 141,054.86         |           |                    |          |                |                  |                  |
| 26       |             |          |          |                       |           |                    |          |                |                  |                  |
| 27       |             |          |          | 129,103.48            |           |                    |          | (1,379,059.90) |                  |                  |
| 28       |             |          |          |                       |           |                    |          |                |                  |                  |
| 29       |             |          |          | Average Lag for Rents |           |                    |          | (10.68)        |                  |                  |

Line  
No.

Taxes Other Than Income - Summary of Weighted Average Lag Days for Subsidiary Account

|    | Paradise Valley                         |          | Average  |          |
|----|---|----------|----------|----------|
|    | Original                                |          | Lag      |          |
|    | Proposed                                | Percent  | Days     | Lag      |
|    | 12/10/2004 <sup>1</sup>                 | to Total |          | Days     |
| 7  | P29 General Taxes                       |          |          |          |
| 8  | 685320 FUTA                             | \$4,410  | 0.080812 | 75.0000  |
| 9  | 685325 FICA                             | \$42,168 | 0.772718 | 12.0000  |
| 10 | 685350 SUTA                             | \$7,993  | 0.146470 | 75.0000  |
| 11 |   |          |          | 10.98523 |
| 12 |   |          |          |          |
| 13 |   |          |          |          |
| 14 |   |          |          |          |
| 15 |   |          |          |          |
| 16 |   |          |          |          |
| 17 |   |          |          |          |
| 18 |   |          |          |          |
| 19 |   |          |          |          |
| 20 |   |          |          |          |
| 21 |   |          |          |          |
| 22 | Average Lag for Taxes Other than Income | 54,571   | 1.000000 | 26.31876 |
| 23 |   |          |          |          |
| 24 |   |          |          |          |
| 25 |   |          |          |          |

<sup>1</sup>Per page 002 of original worksheets

Line  
No.

1 TAXES OTHER THAN INCOME

| Payment<br>Date | Amount | Service Period<br>From To | Avg Service<br>Period | Lag<br>(Lead) | Dollar Days |
|-----------------|--------|---------------------------|-----------------------|---------------|-------------|
|-----------------|--------|---------------------------|-----------------------|---------------|-------------|

6 FUTA

8 - FUTA payments are due the last day of the following month after the end of the quarter,  
9 resulting in approximately 75 average lag days.

12 FICA

14 - FICA is paid the same day as pay day, resulting in approximately 12 average lag days.

17 SUTA

19 - SUTA payments are due the last day of the following month after the end of the quarter,  
20 resulting in approximately 75 average lag days.

36

Line

No.

PROPERTY TAXES

1  
 2  
 3  
 4  
 5  
 6  
 7  
 8  
 9  
 10  
 11  
 12  
 13

| <u>Payment<br/>Date</u>      | <u>From</u> | <u>Thru</u> | <u>Avg Service<br/>Period</u> | <u>Lag<br/>(Lead)</u> | <u>Annual<br/>Payment</u> |               |
|------------------------------|-------------|-------------|-------------------------------|-----------------------|---------------------------|---------------|
| 10/26/2004                   | 1/1/2004    | 12/31/2004  | 182.50                        | 116.50                | 50%                       | 58.25         |
| 2/25/2005                    | 1/1/2004    | 12/31/2004  | 182.50                        | 238.50                | 50%                       | 119.25        |
| Total                        |             |             |                               |                       |                           |               |
| Average Lag for Property Tax |             |             |                               |                       |                           | <u>177.50</u> |

Line

No.

1 FEDERAL INCOME TAXES

2

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4

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13

| Payment<br>Date                    | From     | Thru       | Avg Service<br>Period | Lag<br>(Lead) | Annual<br>Payment |           |
|------------------------------------|----------|------------|-----------------------|---------------|-------------------|-----------|
| 4/15/2004                          | 1/1/2004 | 12/31/2004 | 182.50                | -77.5         | 25%               | (19.38)   |
| 6/15/2004                          | 1/1/2004 | 12/31/2004 | 182.50                | -16.5         | 25%               | (4.13)    |
| 9/15/2004                          | 1/1/2004 | 12/31/2004 | 182.50                | 75.5          | 25%               | 18.88     |
| 12/15/2004                         | 1/1/2004 | 12/31/2004 | 182.50                | 166.5         | 25%               | 41.63     |
| Total                              |          |            |                       |               |                   |           |
| Average Lag for Federal Income Tax |          |            |                       |               |                   | <u>37</u> |



# **EXHIBIT JMR-RB5**

**Supporting documentation for Nauni Valley Drive improvements  
Company Rate Base Adjustment AAW-3**

PV Fire Flow Improvement Program  
Nauni Valley Drive Main Replacement Account Review (Principle Charges at Substantial Completion)  
1/26/06 (rev. 1) - b. vandenson

|   | Contract Amount | Amount Invoiced | Balance for Nauni | Overall Total (NTE) |
|---|-----------------|-----------------|-------------------|---------------------|
| <b>Engineering &amp; Inspection (B&amp;C)</b>   |                 |                 |                   |                     |
| Design Services   | \$9,504.00      | \$9,504.00      | \$0.00            |                     |
| Utility Potholing for Nauni Valley Dr.<br>(part of B&C task order amendment #1)   | see note 3      | \$3,864.35      | \$0.00            |                     |
| Inspection Services (part of B&C task<br>order amendment #2, NTE price)   | \$47,600.00     | \$19,188.75     | \$28,411.25       |                     |
| Bid Services  | see note 1      | \$3,079.25      | \$0.00            |                     |
| Construction Admin Services   | see note 2      | \$7,715.20      | \$0.00            |                     |
| <b>Construction (B&amp;F)</b>   |                 |                 |                   |                     |
| Installation, pay application #1 (see<br>note 4)  | \$279,427.00    | \$251,484.30    | see below         |                     |
| Installation, pay application #2 (see<br>note 4)  | see above       | \$27,942.70     | \$0.00            |                     |
| <b>Other</b>  |                 |                 |                   |                     |
| Permit fee (MCESD)  | \$500.00        | \$500.00        | \$0.00            |                     |
| Pending plumbing repair to sprinkler<br>system for resident (service line<br>broken during construction, see note<br>5) | \$500.00        | \$0.00          | \$500.00          |                     |
| <b>Subtotal</b>   |                 | \$323,278.55    | \$28,911.25       |                     |
| Company Labor (see note 6)  | n/a             | \$8,844.96      | \$2,500.00        |                     |
| AFUDC (see note 7)  | n/a             | \$29,027.59     | \$2,745.34        |                     |
| Overhead (see note 8)   | n/a             | \$23,248.65     | \$2,198.79        |                     |
| <b>Total</b>  |                 | \$384,399.75    | \$36,355.38       | \$420,755.13        |

Notes:

- 1 Total "Bid Services" amount paid of \$12,317.00 is for multiple B&C projects but three projects have been bid with amount paid being \$9,237.75; thus, Nauni portion equates to 1/3 of the total (\$3,079.25).
- 2 Total "Construction Admin Services" amount of \$38,576.00 is for multiple B&C projects but two projects are being executed with amount paid being \$15,430.40; thus, Nauni portion equates to 1/2 of the total (\$7,715.20).
- 3 Total change order number 1 (task order amendment #1) is inclusive of the Nauni Valley Drive scope change.
- 4 A 10% retainage has not been released to the Contractor, figures represent "booked" values.
- 5 Estimated price was preliminary estimate from landscaper to resident, more to follow.
- 6 Amount invoiced/actual based on 50% of payroll distribution report total of \$17,689.92 (time split assumes Lincoln Drive design at 30% & balance of others, Tatum Blvd in particular, at 20% of overall total).
- 7 AFUDC at 8.74%. (per input from Asset & Capital Planning Group).
- 8 Overhead at 7% (rate fluctuates, ok to use per input from Asset & Capital Planning Group).

BROWN AND  
CALDWELL

Brown and Caldwell  
Suite 500 201 East Washington Street  
Phoenix AZ 85004  
Tel (602) 567-4000 Fax (602) 567-4001

INVOICE

A23ENG07

50007613

#

To Arizona American Wtr Co  
P O Box 5087  
Mount Laurel NJ 08054-1108

Project No 128435

Invoice No 1525586 1525586

Date January 20 2006 1-20-06

Attention Accounts Payable

Subject Waterlines Contact Tracy H Moraca PM  
Billing Period November 25 2005 through December 29 2005 Invoiced By Deanne L Herschberg  
Progress Billing No 5  
Reference Authorization Dated 4/29/2005

Local Rep Brian Vanderson  
Work Basket A23ENG07

23020501 105275.31 500748754  
OK TO PAY

Paradise Valley Water Line

PRODUCT CODE TJOT  
" THIS IS A LOSS ACCRUAL 1/25/06



| Phase Code / Name           | Percent Complete | Contract Amount | Amount Invoiced | Previously Invoiced | T Invo       |
|-----------------------------|------------------|-----------------|-----------------|---------------------|--------------|
| 120 - Bid Services          | 75%              | \$ 12 317 00    | \$ 9 237 75     | \$ 9 237 75         | \$ 0         |
| 140 - Construction Services | 40%              | \$ 38 576 00    | \$ 15 430 40    | \$ 1 928 80         | \$ 13 501.60 |
| 200 - Lincoln Drive         | 100%             | \$ 84 374 00    | \$ 84 374 00    | \$ 84 374 00        | \$ 0         |
| 300 Nauni Drive             | 100%             | \$ 9 504 00     | \$ 9 504 00     | \$ 9 504 00         | \$ 0         |
| 400 Tatum Phase I           | 90%              | \$ 44 662 00    | \$ 40 195 80    | \$ 35 729 60        | \$ 4 466.20  |
| 450 Tatum Phase II          | 90%              | \$ 10 454 00    | \$ 9 408 60     | \$ 8 363 20         | \$ 1 045.40  |
| 500 Highland Pipe & BS      | 90%              | \$ 43 890 00    | \$ 39 501 00    | \$ 10 972 50        | \$ 28 528.50 |
| 600 Change Order No 1       | 100%             | \$ 26 296 45    | \$ 26 296 45    | \$ 26 296 45        | \$ 0         |
| 700 Change Order No 2       | 90%              | \$ 44 400 00    | \$ 39 960 00    | \$ 11 100 00        | \$ 28 860.00 |
| Total                       |                  | \$ 314 473 45   | \$ 273 908 00   | \$197 506 30        | \$ 76 401.70 |

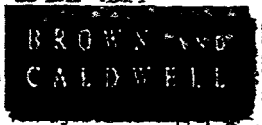
76401.70

PAYMENT REMIT ADDRESS Brown and Caldwell P O Box

Payment is due within 30 days of receipt of invoice interest on the unpaid balance will accrue 31st day at the rate of 15 percent per month or the maximum interest permitted by law when

0208

#6



Brown and Caldwell  
Suite 500 201 East Washington Street  
Phoenix AZ 85004  
Tel (602) 567-4000 Fax (602) 567-4001

INVOICE

23020501.105275.31 50074875W  
C/L TO PAY

A23ENG07  
50007613  
AP

PRODUCT CODE ~~WBO1~~  
"THIS IS A 2005 ACCRUAL"

1125106 R

To Arizona American Wtr Co  
P O Box 5087  
Mount Laurel NJ 08054 1108

Project No 128435

Invoice No 1525587

1525587

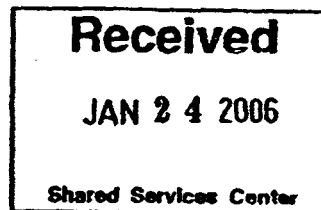
Date January 20 2006

1-20 06

Attention Accounts Payable

Subject Waterlines Contact Tracy H Moraca PM  
Billing Period November 25 2005 through December 29 2005 Invoiced By Deanne L Herschberg  
Progress Billing No 2  
Reference Authorization Dated 4/29/2005

Local Rep Brian Vandenson  
Work Basket A23ENG07



750 Naumi Inspection Svcs

LABOR

| Class/ Employee Name | Hours  | Rate      | Billing Amount |
|----------------------|--------|-----------|----------------|
| Senior Inspector     |        |           |                |
| Fredrick K Schneider | 125    | \$ 119 00 | \$ 148 75      |
| Senior Inspector     |        |           |                |
| Peter L Amador       | 109 00 | \$ 119 00 | \$ 12 971 00   |
| Sub Total Labor      | 110 25 |           | \$ 13 119 75   |
| Total Labor          |        |           | \$ 13 119 75   |

Total 750 Naumi Inspection Svcs  
Amount Due this Invoice

\$ 13 119 75  
\$ 13 119 75

13119 75

PAYMENT REMIT ADDRESS (B)

Payment is due within 30 days of receipt of invoice and  
31st day at the rate of 1.5 percent per month or the ma.

208, San Francisco CA 94145 0208

with the

7

#5



Don



Brown and Caldwell  
Suite 500 201 East Washington Street  
Phoenix AZ 85004  
Tel (602) 567-4000 Fax (602) 567-4001

RECEIVED INVOICE

DEC 14 2005

SHARED SERVICE CENTER

To Arizona American Wtr Co  
P O Box 5087  
Mount Laurel NJ 08054 1108

A23ENG07  
50007613 AP

Project No 128435

Invoice No 1523882

Date December 14 2005

1523882

12 14 05

Attention Accounts Payable

Subject Waterlines Contact Tracy H Moraca PM

Billing Period September 30 2005 through December 01 2005 Invoiced By Deanne L Herschberg

Progress Billing No 4

Reference Authorization Dated 4/29/2005

23020501, 105275.31 50077875W

OK TO PAY

Local Rep Brian Vandenson

Work Basket A23ENG07

PRODUCT CODE T707

THIS IS A 2005 ACCRUAL

Paradise Valley Water Line

12/21/05

| Phase Code / Name         | Percent Complete | NOTE TOTAL IS Contract Amount | Amount Invoiced | Previously Invoiced | T1 Invoiced  |
|---------------------------|------------------|-------------------------------|-----------------|---------------------|--------------|
| 120 Bid Services          | 75%              | \$ 12 317 00                  | \$ 9 237 75     | \$ 6 158 50         | \$ 3 079 25  |
| 140 Construction Services | 5%               | \$ 38 576 00                  | \$ 1 928 80     | \$ 0 00             | \$ 1 928 80  |
| 200 - Lincoln Drive       | 100%             | \$ 84 374 00                  | \$ 84 374 00    | \$ 79 613 44        | \$ 4 760 56  |
| 300 - Nauni Drive         | 100%             | \$ 9 504 00                   | \$ 9 504 00     | \$ 9 504 00         | \$ 0 00      |
| 400 - Tatum Phase I       | 80%              | \$ 44 662 00                  | \$ 35 729 60    | \$ 2 233 10         | \$ 33 496 50 |
| 450 Tatum Phase II        | 80%              | \$ 10 454 00                  | \$ 8 363 20     | \$ 522 70           | \$ 7 840 50  |
| 500 Highland Pipe & BS    | 25%              | \$ 43 890 00                  | \$ 10 972 50    | \$ 0 00             | \$ 10 972 50 |
| 600 Change Order No 1     | 100%             | \$ 26 296 45                  | \$ 26 296 45    | \$ 0 00             | \$ 26 296 45 |
| 700 Change Order No 2     | 25%              | \$ 44 400 00                  | \$ 11 100 00    | \$ 0 00             | \$ 11 100 00 |
| Total                     |                  | \$ 314 473 45                 | \$ 197 506 30   | \$ 98 031 74        | \$ 99 474 56 |

NOTE TOTAL IS \$103543.56

AMT 99474.56

SS (Brown and Caldwell, P O Box 45208, San Francisco, CA 94145-0208)

of invoice interest on the unpaid balance will accrue beginning with the  
nth or the maximum interest permitted by law whichever is lesser

#4

P21



Brown and Caldwell  
Suite 500 201 East Washington Street  
Phoenix AZ 85004  
Tel (602) 567-4000 Fax (602) 567-4001

RECEIVED NVO

DEC 19 2005

SHARED SERVICE CENTER

A23ENG07

50007613<sub>ap</sub>

To Arizona American Wtr Co  
P O Box 5087  
Mount Laurel NJ 08054-1108

Project No 128435

Invoice No 1523883

Date December 14 2005

1523883

1214-0

Attention Accounts Payable

Subject Waterlines Contact Tracy H Moraca PM  
Billing Period September 30 2005 through December 01 2005 Invoiced By Deanne L Herschberg  
Progress Billing No  
Reference Authorization Dated 4/29/2005

Local Rep Brian Vandenson  
Work Basket A23ENG07

750 Nauni Inspection Svcs

LABOR

| Class/ Employee Name | Hours | Rate      | Billing Amount |
|----------------------|-------|-----------|----------------|
| Senior Inspector     |       |           |                |
| Peter L Amador       | 50 00 | \$ 119 00 | \$ 5 950 00    |
| Senior Inspector     |       |           |                |
| Gwendolyn A Flora    | 1 00  | \$ 119 00 | \$ 119 00      |
| Sub Total Labor      | 51 00 |           | \$ 6 069 00    |
| Total Labor          |       |           | \$ 6 069 00    |

Total 750 Nauni Inspection Svcs  
Amount Due this Invoice

\$ 6 069 00  
\$ 6 069 00

Am  
6669.00

PAYMENT REMIT ADDRESS Brown and Caldwell, P O Box 45208, San Francisco, CA 94145 0208

Payment is due within 30 days of receipt of invoice. Interest on the unpaid balance will accrue beginning with the 31st day at the rate of 1.5 percent per month or the maximum interest permitted by law whichever is lesser.



Brown and Caldwell  
Suite 500 201 East Washington Street  
Phoenix AZ 85004  
Tel (602) 567-4000 Fax (602) 567-4001

INVOICE

RECEIVED

56667613  
ALW  
A23ENG07

To Arizona American Wtr Co  
P O Box 5087  
Mount Laurel NJ 08054 1108

OCT 24 2005 Project No 128435  
SHARED SERVICE CENTER Invoice No 1520765

Date October 19 2005

Attention Accounts Payable

23020501.105275.31 50074875W  
PRODUCT CODE TJ07

10/19/05  
OK TO PAY

Subject Waterlines 10/28/05 P Contact Tracy H Moraca PM  
Billing Period August 26 2005 through September 29 2005 Invoiced By Deanne L Herschberg  
Progress Billing No 3  
Reference Authorization Dated 4/29/2005  
Local Rep Brian Vandenson  
Work Basket A23ENG07

Paradise Valley Water Line

| Contract Amount                 | Percent Complete | Billing Amount |
|---------------------------------|------------------|----------------|
| \$ 161 311 00                   | X 61%            | \$ 98 031 74   |
| Less Amount Previously Invoiced |                  | \$ 68 133 35   |
| Amount Due this Invoice         |                  | \$ 29 898 39   |

See email

29898.39

Summary of Account

|                     |                |                   |               |
|---------------------|----------------|-------------------|---------------|
| Invoiced To Date    | \$ 98 031 74   | Contract Ceiling  | \$ 161 311 00 |
| Total Paid To Date  | \$ (53 510 46) | Invoiced To Date  | \$ 98 031 74  |
| Balance Outstanding | \$ 44 521 28   | Remaining Balance | \$ 63 279 26  |

PAYMENT REMIT ADDRESS Brown and Caldwell, P O Box 45208, Sa

Payment is due within 30 days of receipt of invoice. Interest on the unpaid balance will accrue beginning on the 31st day at the rate of 1.5 percent per month or the maximum interest permitted by law whichever is lesser.

# 3

 Brian A Vandenson

10/28/2005 02:35 PM

To: tmoraca@brwnald.com, jhill@brwnald.com

cc:

Subject: Invoicing - SCW & PV Fireflow Improvement projects

Tracy & Jennifer,

I received an invoice from B&C for \$28,898.39 & noticed a change in the total contract amount (new total is \$161,311.00). At first I was confused as to how this figure was determined (the previous total was \$93,878.00) but I think I deciphered it & will sign-off on the invoice. In the future, I would like the total to reflect the following:

Paradise Valley Water Line:

|                                    |  |
|------------------------------------|--|
| Nauni Valley Drive                 | \$9504.00  |
| Lincoln                            | \$84374.00   |
| Phase 1 Tatum                      | \$44662.00   |
| Phase 2 Tatum                      | \$10454.00   |
| Bid Services (part 1)              | \$12317.00   |
| Construction Admin (part 1)        | \$38576.00   |
| Change Order #1                    | \$20421.05   |
| Change Order #2                    | tbd  |
| Highland BS<br>from part 2)        | \$43890.00 (this scope has changed but move \$'s to part 1 total |
| total part 1                       | \$264198.05 (add change order #2 to this amount to the total     |
| when it is agreed upon & approved) |  |

For the pending inspection services, in both Paradise Valley & SCW, the price will be a NTE & we should track & invoice separately (from both the Paradise Valley Water Line total above & SCW Water Line). Part 2 of the Paradise Valley Water Line, as I see it, will have a total of \$248,154.00 (for projects 7 thru 10 but also includes Bid Services & Construction Admin for project 6).

Brian A. Vandenson  
Operations Engineer  
Arizona American Water Company  
19820 N. 7th Street, Suite 201  
Phoenix, AZ 85024  
o: (623)445-2497  
c: (602)388-2841



BROWN AND  
CALDWELL

Brown and Caldwell  
Suite 500 201 East Washington Street  
Phoenix AZ 85004  
Tel (602) 567-4000 Fax (602) 567-4001

50007613  
ALL  
A23ENG07

INVOI

23020501.105275.31 50074875W OK TO PAY  
1518970B

Product CODE TJ07

To Arizona American Wtr Co  
P O Box 5087  
Mount Laurel NJ 08054 1108

9/30/05  
R

Project No 128435

Invoice No 1518970 B

Date September 16 2005

Attention Accounts Payable

Subject Waterlines Contact Jennifer E Hill PM  
Billing Period July 29 2005 through September 01 2005 Invoiced By Deanne L Herschberg  
Progress Billing No 2  
Reference Authorization Dated 4/29/2005  
Local Rep Brian Vandenson  
Work Basket A23ENG07

Paradise Valley Water Line

|                     | Contract Amount                 |   | Percent Complete |   | Billing Amount |
|---------------------|---------------------------------|---|------------------|---|----------------|
| Lincoln Dr          | \$ 93 878 00                    | X | 73%              | = | \$ 68 133 35   |
| +<br>Nann Valley Dr | Less Amount Previously Invoiced |   |                  |   | \$ 53 510 46   |
|                     | Amount Due this Invoice         |   |                  |   | \$ 14 622 89   |

14622.89

Summary of Account

|                     |              |                   |              |
|---------------------|--------------|-------------------|--------------|
| Invoiced To Date    | \$ 68 133 35 | Contract Ceiling  | \$ 93 878 00 |
| Total Paid To Date  | \$ 0 00      | Invoiced To Date  | \$ 68 133 35 |
| Balance Outstanding | \$ 68 133 35 | Remaining Balance | \$ 25 744 65 |

RECEIVED

SEP 19 2005

SHAR... CENTER

SS Brown and Caldwell, P O Box 45208 San Francisco, CA 94145 0208

of invoice interest on the unpaid balance will accrue beginning with the  
nth or the maximum interest permitted by law whichever is lesser

H2



Brown and Caldwell  
Suite 500 201 East Washington Street  
Phoenix AZ 85004  
Tel (602) 567-4000 Fax (602) 567-4001

50007613 INVOI  
ALW

A23ENG07

23020501.105275.31 50074875W OK TO PAY

Product CODE TJ07

To Arizona American Wtr Co  
P O Box 5087  
Mount Laurel NJ 08054 1108

Project No 128435

913010

Invoice No 1518790A

Ⓡ

Date September 13 2005

↓  
Page 1 of 2

Attention Accounts Payable

Subject Waterlines Contact Jennifer E Hill PM  
Billing Period July 01 2005 through July 28 2005 Invoiced By Deanne L Herschberg  
Progress Billing No  
Reference Authorization Dated 4/29/2005  
Local Rep Brian Vandenson  
Work Basket A23ENG07

Paradise Valley Water Line

| <u>Contract Amount</u>          |   | <u>Percent Complete</u> |   | <u>Billing Amount</u> |
|---------------------------------|---|-------------------------|---|-----------------------|
| \$ 93 878 00                    | X | 57%                     | = | \$ 53 510 46          |
| Less Amount Previously Invoiced |   |                         |   | \$ 0 00               |
| Amount Due this Invoice         |   |                         |   | <u>\$ 53 510 46</u>   |

Summary of Account

|                     |                     |                   |                     |
|---------------------|---------------------|-------------------|---------------------|
| Invoiced To Date    | \$ 53 510 46        | Contract Ceiling  | \$ 93 878 00        |
| Total Paid To Date  | \$ 0 00             | Invoiced To Date  | \$ 53 510 46        |
| Balance Outstanding | <u>\$ 53 510 46</u> | Remaining Balance | <u>\$ 40 367 54</u> |

PAYMENT REMIT ADDRE

Payment is due within 30 days of receipt  
31st day at the rate of 1.5 percent per mo

Box 45208, San Francisco, CA 94145-0208

accrue beginning with the  
whichever is lesser

#1

Ⓡ

**AWSSC - Accounts Payable Dept**  
**Construction Contractor Invoice Transmittal**

**I. General Information**

Company/District: Arizona American Water/Paradise Valley  
Project Name: 331 - PV Fire Flow Improvements (Nauni Valley Drive)  
Project Business Unit: 23020501  
Invoice Product Code: WB01  
AAW Project Manager: Brian Vandenson  
Work Basket No.: A23ENG07  
Contractor: B&F Contracting Inc (Tel 623-582-1170)  
Invoice No.: 15004 (Payment #2)  
Invoice Date: 1/18/06 (Received 1/19/06)

**II. Construction Work In Progress (CWIP) Charge Distribution**

| Task Order No. & Type<br>(Sub ledger- 8 digit & include type) | Description                  | Amount To Be Booked  | Amount to Retainage Acct.<br>(See below for Setup)<br>Object Acct. 105280.XX | Amount to be Paid<br>Object Acct. 105275.XX | Amount to be Paid<br>Object Acct. See Prev Column | Amount Held in Retainage Acct.<br>BU# 23020203<br>Object Acct. 234200 |
|---|------------------------------|----------------------|--|---|---|---|
| 50074876.W  | Install of WM, 100% complete | \$27,942.70          | \$2,794.27   | 105275.31                                   | \$25,148.43                                       | \$2,794.27  |
|   |                              |                      | \$0.00   |   | \$0.00  | \$0.00  |
|   |                              |                      | \$0.00   |   | \$0.00  | \$0.00  |
|   |                              |                      | \$0.00   |   | \$0.00  | \$0.00  |
|   |                              |                      | \$0.00   |   | \$0.00  | \$0.00  |
|   |                              |                      | \$0.00   |   | \$0.00  | \$0.00  |
|   |                              |                      | \$0.00   |   | \$0.00  | \$0.00  |
|   |                              |                      | \$0.00   |   | \$0.00  | \$0.00  |
| <b>Total CWIP Booked This Period</b>                          |                              |                      | \$2,794.27   |   | \$25,148.43                                       | \$2,794.27  |
|   |                              | Retainage to be Held | \$2,794.27   |   |   | \$2,794.27  |
|   |                              |                      |  |   |   | 10%   |

**III. Retirement Work In Progress (RWIP) Charge Distribution**

| Task Order No.<br>(Sub ledger)       | Retirement Work Description | Amount To Be Booked<br>RWIP Obj Acct. 185275 | Amount To Retainage | Amount To Be Paid | Amount Held in Retainage Acct.<br>BU# 240305<br>Object Acct. 234200 |
|--------------------------------------|-----------------------------|--|---------------------|-------------------|---|
|                                      |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
|                                      |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
|                                      |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
|                                      |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
|                                      |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
|                                      |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
| <b>Total RWIP Booked This Period</b> |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
|                                      |                             | Retainage to be Held                         | \$0.00              |                   | \$0.00  |
|                                      |                             |  |                     |                   | 5%  |
| <b>Total Retainage to be Held</b>    |                             |  | \$2,794.27          |                   | \$2,794.27  |

**IV. Contract Retention Account:**

BU #: XXXXXX Obj./Acct.: 234200

| Task Order No. | Type                 | Amount | Amnt to be Paid |
|----------------|----------------------|--------|-----------------|
|                | Retainage to be Paid |        | \$0.00          |
|                | Retainage to be Paid |        | \$0.00          |
|                | Retainage to be Paid |        | \$0.00          |
|                | Retainage to be Paid |        | \$0.00          |
|                | Retainage to be Paid |        | \$0.00          |
|                | Retainage to be Paid |        | \$0.00          |

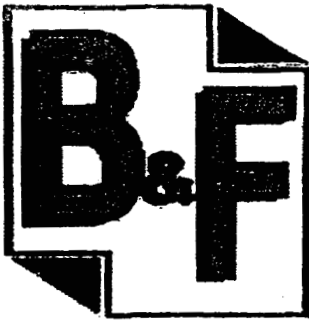
**TOTAL TO BE PAID THIS PERIOD**

**ACH TRANSFER**

**\$25,148.43**

Requested:   
Brian Vandenson, Operations Engineer

Approved: \_\_\_\_\_  
J. E. Gross, Engineering Manager



P.O. BOX 54785  
2501 W. Behrend Dr. Ste.23  
Phoenix, AZ 85027  
Telephone: 623-582-1170  
FAX: 623-582-3761

Fax

RECEIVED

JAN 19 2006

ARIZONA AMERICAN WATER

To: Arizona American Water

From: Twila Rothra

ATTN: Accounts Payable

623-582-1170

FAX : 623-445-2454

Pages: 4 Including Cover Sheet

Phone:

Date: 1/19/06

Re: INVOICE

CC:

Urgent X For Review Please Comment X Please Reply

● Comments:

Attached is this months invoice, for both Nauni Valley & Sun City Job, can you please make sure the appropriate people get the copies they need, the hard copy will be in the mail today.

Thank you

Revised Invoices Attached  
with different Invoice #'s



# B&F CONTRACTING, INC.

P.O. BOX 54785  
PHOENIX, AZ 85078-4785  
(623) 582-1170

FAX# (623) 582-3761

| DATE      | INVOICE NO. |
|-----------|-------------|
| 1/18/2006 | 15004       |

S  
o Arizona American Water  
L 19820 N 7th Street  
o Suite 201  
Phoenix, AZ 85024

S  
H B & F Job No. 4242.05 / 4009  
I Nauni Valley Drive  
P Water Main Replacement  
56th St. & Nauni Valley

T  
O

T  
O

| REQUISITION NO.<br>2 |      | PURCHASE ORDER NO.  | TERMS<br>NET 30 DAYS | CONTRACT NO.        |
|----------------------|------|---|----------------------|---------------------|
| QUANTITY             | UNIT | DESCRIPTION   | AMOUNT               | CURRENT BILLING     |
| 1.00                 | EA   | Work completed to date 100%<br><br>(See attached details) |                      | \$ 27,942.70        |
|                      |      | Contract Billing Summary                                  |                      |                     |
|                      |      | Contract amount   | \$ 279,427.00        |                     |
|                      |      | Invoice # 13309A (REVISED)                                | \$(226,335.87)       |                     |
|                      |      | Invoice # 15004 Requisition # 2                           | \$(25,148.43)        |                     |
|                      |      | Balance Not Billed + (retention)                          | \$ 27,942.70         |                     |
|                      |      |   |                      |                     |
|                      |      |   | less 10% Retention   | \$ 2,794.27         |
|                      |      |   | <b>TOTAL</b>         | <b>\$ 25,148.43</b> |

RECEIVED  
JAN 18 2006  
ARIZONA AMERICAN WATER



B & F Contracting Inc.  
P.O. Box 54785  
Phoenix, AZ 85078

01/18/06  
Requisition # 2

Arizona American Water  
19820 N. 7th Street  
Suite 201  
Phoenix, AZ 85024

Nauni Valley Dr.  
Water Main Replacement  
56th Street & Nauni Valley

| Nauni Valley Drive  |                           | Scheduled Value | Work Completed<br>from previous appl. (D+E) | This Period | Material Stored | Total Completed & Stored | % (D+C) | Balance to finish (C-D) | Remaining   |
|---------------------|---------------------------|-----------------|---|-------------|-----------------|--------------------------|---------|-------------------------|-------------|
| description of work |                           |                 |   |             |                 |                          |         |                         |             |
| 1                   | 8" Dip Water              | \$175,261.80    | 161,684.80                                  | 13,677.00   | -               | 175,261.80               | 100%    | \$0.00                  | \$17,628.16 |
| 2                   | 8" Valve                  | \$8,000.00      | 8,000.00                                    | -           | -               | 8,000.00                 | 100%    | \$0.00                  | \$800.00    |
| 3                   | F H Complete              | \$17,400.00     | 17,400.00                                   | -           | -               | 17,400.00                | 100%    | \$0.00                  | \$1,740.00  |
| 4                   | R & R A/C Pavement        | \$35,260.00     | 33,487.00                                   | 1,763.00    | -               | 35,260.00                | 100%    | \$0.00                  | \$3,628.00  |
| 5                   | 1" Water Service          | \$26,200.00     | 17,840.00                                   | 7,560.00    | -               | 26,200.00                | 100%    | \$0.00                  | \$2,620.00  |
| 6                   | Connection at 56th Street | \$6,502.70      | 6,502.70                                    | -           | -               | 6,502.70                 | 100%    | \$0.00                  | \$650.27    |
| 7                   | Connection at McDonald    | \$4,802.70      | -   | 4,802.70    | -               | 4,802.70                 | 100%    | \$0.00                  | \$480.27    |
| 8                   | Traffic Control           | \$7,000.00      | 6,860.00                                    | 140.00      | -               | 7,000.00                 | 100%    | \$0.00                  | \$700.00    |
|                     |                           | \$278,427.00    | \$251,484.30                                | \$27,942.70 | \$0.00          | \$278,427.00             | 100%    | \$0.00                  | \$27,942.70 |

JAN 18 2006

APPROVED FOR PAYMENT

**AWSSC - Accounts Payable Dept**  
**Construction Contractor Invoice Transmittal**

**I. General Information**

Company/District: Arizona American Water/Paradise Valley  
 Project Name: 331 - PV Fire Flow Improvements (Nauni Valley Drive)  
 Project Business Unit: 23020501  
 Invoice Product Code: WB01  
 AAW Project Manager: Brian Vandenson  
 Work Basket No.: A23ENG07  
 Contractor: B&F Contracting Inc (Tel 623-582-1170)  
 Invoice No.: 13309A  
 Invoice Date: 12/27/2005

*" This is a 2005 Accrual "*

**II. Construction Work In Progress (CWIP) Charge Distribution**

| Task Order No. & Type<br>(Sub ledger- 8 digit & include type) | Description                 | Amount To Be Booked | Amount to Retainage Acct.<br>(See below for Setup)<br>Object Acct. 105280. XX | Amount to be Paid<br>Object Acct. 105275. XX | Amount to be Paid<br>Object Acct. See Prev Column | Amount Held in Retainage Acct.<br>BU# 23020203<br>Object Acct. 234200 |
|---|-----------------------------|---------------------|---|--|---|---|
| 50074876.W  | Install of WM, 90% complete | \$251,484.30        | \$25,148.43   | 105275.31                                    | \$226,335.87                                      | \$25,148.43   |
|   |                             |                     | \$0.00  |  | \$0.00  | \$0.00  |
|   |                             |                     | \$0.00  |  | \$0.00  | \$0.00  |
|   |                             |                     | \$0.00  |  | \$0.00  | \$0.00  |
|   |                             |                     | \$0.00  |  | \$0.00  | \$0.00  |
|   |                             |                     | \$0.00  |  | \$0.00  | \$0.00  |
|   |                             |                     | \$0.00  |  | \$0.00  | \$0.00  |
|   |                             |                     | \$0.00  |  | \$0.00  | \$0.00  |
| <b>Total CWIP Booked This Period</b>                          |                             |                     | \$25,148.43   |  | \$226,335.87                                      | \$25,148.43   |
| Retainage to be Held  |                             | 0%                  | \$25,148.43   |  |   | \$25,148.43   |

**III. Retirement Work In Progress (RWIP) Charge Distribution**

| Task Order No.<br>(Sub ledger)       | Retirement Work Description | Amount To Be Booked<br>RWIP Obj Acct. 185275 | Amount To Retainage | Amount To Be Paid | Amount Held in Retainage Acct.<br>BU# 240305<br>Object Acct. 234200 |
|--------------------------------------|-----------------------------|--|---------------------|-------------------|---|
|                                      |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
|                                      |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
|                                      |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
|                                      |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
|                                      |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
|                                      |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
| <b>Total RWIP Booked This Period</b> |                             | \$0.00                                       | \$0.00              | \$0.00            | \$0.00  |
| Retainage to be Held                 |                             | 5%   | \$0.00              |                   | \$0.00  |
| <b>Total Retainage to be Held</b>    |                             |  | \$25,148.43         |                   | \$25,148.43   |

**IV. Contract Retention Account:**

BU #: XXXXXX Obj/Acct.: 234200

| Task Order No. | Type                 | Amount | Am't to be Paid |
|----------------|----------------------|--------|-----------------|
|                | Retainage to be Paid |        | \$0.00          |
|                | Retainage to be Paid |        | \$0.00          |
|                | Retainage to be Paid |        | \$0.00          |
|                | Retainage to be Paid |        | \$0.00          |
|                | Retainage to be Paid |        | \$0.00          |
|                | Retainage to be Paid |        | \$0.00          |

**TOTAL TO BE PAID THIS PERIOD**

**ACH TRANSFER**

**\$226,335.87**

Requested:   
 Brian Vandenson, Operations Engineer

Approved:   
 J. E. Gross, Engineering Manager

*H*

**B&F CONTRACTING, INC.**

P.O. BOX 54785  
PHOENIX, AZ 85078-4785  
(623) 582-1170

FAX# (623) 582-3761

**REVISED**

| DATE       | INVOICE NO. |
|------------|-------------|
| 12/14/2005 | 13309A      |

S  
o Arizona American Water  
L 19820 N 7th Street  
D Suite 201  
Phoenix, AZ 85024

S  
H B & F Job No. 4242.05  
I Nauni Valley Drive  
P Water Main Replacement  
56th St. & Nauni Valley

T  
O

T  
O

| REQUISITION NO. |      | PURCHASE ORDER NO.                                   |  | TERMS              | CONTRACT NO.         |
|-----------------|------|--|--|--------------------|----------------------|
| 1               |      |  |  | NET 30 DAYS        |                      |
| QUANTITY        | UNIT | DESCRIPTION  |  | AMOUNT             | CURRENT BILLING      |
| 1.00            | EA   | Work completed to date 90%                           |  |                    | \$ 251,484.30        |
|                 |      | (See attached details)                               |  |                    |                      |
|                 |      | <b>Contract Billing Summary</b>                      |  |                    |                      |
|                 |      | Contract amount \$ 279,427.00                        |  |                    |                      |
|                 |      | Invoice # 13309A (REVISED) \$(226,335.87)            |  |                    |                      |
|                 |      | <b>Balance Not Billed + (retention) \$ 53,091.13</b> |  |                    |                      |
|                 |      |  |  |                    |                      |
|                 |      |  |  | less 10% Retention | \$ (25,148.43)       |
|                 |      |  |  | <b>TOTAL</b>       | <b>\$ 226,335.87</b> |





B & F Contracting Inc.  
P.O. Box 54785  
Phoenix, AZ 85078

REVISED  
12/14/05  
Invoice # 13309A

Arizona American Water  
19820 N. 7th Street  
Suite 201  
Phoenix, AZ 85024

Nauni Valley Dr.  
Water Main Replacement  
56th Street & Nauni Valley

| Nauni Valley Drive  |                           | Scheduled Value | Work Completed<br>from previous appl. (D+E) | This Period  | Material Stored | Total Completed & Stored | % (G C) | Balance to finish (C-G) | Retainage   |
|---------------------|---------------------------|-----------------|---|--------------|-----------------|--------------------------|---------|-------------------------|-------------|
| description of work |                           |                 |   |              |                 |                          |         |                         |             |
| 1                   | 8" Dip Water              | \$175,281.60    |   | 161,584.60   | -               | 161,584.60               | 92%     | \$13,677.00             | \$16,158.46 |
| 2                   | 8" Valve                  | \$8,000.00      |   | 8,000.00     | -               | 8,000.00                 | 100%    | \$0.00                  | \$800.00    |
| 3                   | F H Complete              | \$17,400.00     |   | 17,400.00    | -               | 17,400.00                | 100%    | \$0.00                  | \$1,740.00  |
| 4                   | R & R AC Pavement         | \$35,260.00     |   | 33,497.00    | -               | 33,497.00                | 95%     | \$1,763.00              | \$3,349.70  |
| 5                   | 1" Water Service          | \$25,200.00     |   | 17,640.00    | -               | 17,640.00                | 70%     | \$7,560.00              | \$1,784.00  |
| 6                   | Connection at 56th Street | \$6,502.70      |   | 6,502.70     | -               | 6,502.70                 | 100%    | \$0.00                  | \$650.27    |
| 7                   | Connection at McDonald    | \$4,802.70      |   | -            | -               | -                        | 0%      | \$4,802.70              | \$0.00      |
| 8                   | Traffic Control           | \$7,000.00      |   | 6,860.00     | -               | 6,860.00                 | 98%     | \$140.00                | \$686.00    |
|                     |                           | \$279,427.00    | \$0.00                                      | \$251,484.30 | \$0.00          | \$251,484.30             | 90%     | \$27,942.70             | \$25,148.43 |

# Transmittal



To Brown and Caldwell Date September 6, 2005  
Attn Jennifer Hill, P.E. From Brian A. Vandenson  
Address 201 E. Washington St., Suite 500 Phone 623-445-2497  
Phoenix, AZ 85004 RE Water Main Projects in Sun City West and Paradise Valley (PV Fireflow Improvements Phase 2)

The Following Items Are Forwarded To You: ( X ) Attached ( ) Under Separate Cover

☐ Copy of Letter ☐ Bid Package ☐ Plans/Prints ☐ Specifications  
☐ Contracts ☐ Change Order ☐ Shop Drawings ☐ Other ATC - Nauni

| COPIES | NO. | DESCRIPTION  |
|--------|-----|--|
| 1      |     | Signed ATC application & \$500 check (permit) – Nauni Valley Drive |
|        |     |  |
|        |     |  |
|        |     |  |

These Are Transmitted As Checked Below:

☐ For signature ☒ For your use  
☐ Approved as submitted ☐ For review and comment  
☐ Approved as noted ☐ Prints returned after loan  
☐ Re-submit \_\_\_\_\_ copies for approval ☐ Submit \_\_\_\_\_ copies for distribution  
☐ FOR BIDS DUE \_\_\_\_\_ ☐ As requested

Dear Jennifer,

Please contact me at (623) 445-2497 if you have any questions.

Regards,

Brian A. Vandenson  
Operations Engineer

Cc: Joe Gross

American Water  
19820 N. 7<sup>th</sup> Street  
Suite 201  
Phoenix AZ 85024  
USA  
T +1 623-445-2400  
F +1 623-445-2454  
I www.amwater.com



**American Water**

PO Box 5088  
Mt. Laurel, NJ 08054

INVOICE NO. 00070381  
DATE 090205

A/P Phone 1-866-777-8426 (Opt. 2,0,3,1)  
COMPANY NO./NAME 23 Arizona AWW  
REMARKS ATC Application Permit

Check No. - 73031157  
Check Date - 09/02/05  
Stub 1 of 1

INVOICE AMOUNT  
500.00  
500.00

23000188 Maricopa County Env Svc Dept

CHECK CONTAINS A VOID PANTOGRAPH, MICROPRINT BORDER, CHEMICAL REACTANTS AND A WATERMARK ON BACK — HOLD AT AN ANGLE TO VIEW

**American Water**

PO Box 5088  
Mt. Laurel, NJ 08054

PNC BANK, NA  
NEW JERSEY

55-277  
312

NO. 73031157

DATE 09/02/05

FIVE HUNDRED AND 00/100 \*\*\*\*\*

PAY TO THE  
ORDER OF

Maricopa County Env Svc Dept  
1001 N Central Ave / STE 100  
Phoenix AZ 85004

\$\*\*\*\*\*500.00  
VOID AFTER 90 DAYS

AUTHORIZED SIGNATURE

⑈73031157⑈ ⑆031202770⑆ 8013584806⑈

**\*See Reverse Side For Easy Opening Instructions\***

**American Water**

PO Box 5088  
Mt. Laurel, NJ 08054



Maricopa County Env Svc Dept  
1001 N Central Ave / STE 100  
Phoenix AZ 85004



Maricopa County  
Environmental Services

## ATC Application

### Application, Check List, Cover Page, Instructions, Fees, and Application for Approval to Construct Water and Sewer Infrastructure (ATC)

**All Project Submittals go to Cindy Furze**

#### ***Subdivision Infrastructure & Planning Program Staff***

Cindy Furze – Project Specialist - 602-506-1058, fax 602-506-5813

Barbara LaSota – Subdivision Coordinator - 602-506-6675

Tom Chisholm, P.E. – Engineer (ATC review and Approval)

Wes Shoner, P.E. – Engineer (Soils Reports, Master Plan, Conversions, and One Stop Shop Reviews)

Steven Borst, P.E. – Program Manager

#### **Mailing Address:**

Maricopa County Environmental Services Department  
Subdivision Infrastructure and Planning Program  
1001 N. Central Avenue, Suite 150  
Phoenix, AZ 85004-1940

**Note: hand deliver projects to the 7<sup>th</sup> floor Suite 711**

### **Application check list for Approval to Construct**

- ☐ **Cover Page for MCESD Projects** - clear explanation of what type of review your firm wants from our department and how the fees apply to the project. (attached)

**We need to know on the cover page what you are requesting from us, even if you have spoken to one of us.**

- ☐ **ATC Fees (attached)** - Expedited Yes ☒ No ☐  
(make checks payable to MCESD)

- ☒ **Approval to Construct application (attached)**

- ☒ **Full size set of plans with every page sealed and signed by engineer.**

- ☒ **water design report (must be sealed & signed by a registered engineer)**

- ☐ **sewer design report (must be sealed & signed by a registered engineer)**

- ☐ **sewer capacity letter (must be issued by the sewer utility, not the engineer)**

❖ **Projects will not be accepted without a sewer capacity letter.**

- **Sewer Capacity Letter** - a statement, signed by the owner or operator of the sewage treatment facility and/or down stream collection system affirming compliance in accordance with R18-9-E301.C.
- **Operation and Maintenance Plan** – there must be verification of an O&M Plan. Submittal of the O&M Plan will be upon request.

\*\*\* The Department reserves the right to request any other information \*\*\*

<http://www.maricopa.gov/envsvc/wwwmd.asp>

Revised 5/5/05

**DO NOT ALTER APPLICATION**



## Application Instructions and fees for Approval to Construct (ATC)

### ATC Application Instructions

#### Page 1

1. Project Name - must be the same as on the engineered plans. This name will appear on the ATC certificate.  
Project Description - what type of review you are requesting from our department.  
❖ You will receive an individual certificate for each component.  
(Example: water line extension, lift station, well site and/or any other component)
2. System information required:  
Water Supply Provider - name of public water system that will be providing water service to the project.  
Water PWS # - public water system number from the water supply provider.  
Sewage Collection System Owner - name of sewage collection owner, providing sewer service to the project.  
Sewage Treatment Facility Owner - name of owner of treatment facility, may be different from the collection system owner.  
Facility Name - name of sewage treatment facility.
3. Quantity:  
Number of water and sewer connections - number of connections on the project, if off site we charge the lower fee, unless large number of connections.  
Water and Sewer Linear Feet and Size - these totals are included on the certificate our Department issues. TOTAL all linear feet together on the L.F. Total line.  
Site - City, Town or County where project is located.  
Section, Township, Range - information can be located in the Phoenix Metropolitan Street Atlas.

#### Page 2

4. Name of Registered Engineer - registered engineer who is the contact person for project. (Please print clearly)  
Phone Number, Ext & Fax - phone number, extension, and fax number of registered engineer working on the project.  
Email Address - email address for the registered engineer working on the project.
5. Name of Engineering Firm as Registered with the AZ Board of Technical Registration - a registered engineering firm that employs the project engineer  
Mailing Address, City, State and Zip Code - mailing address of registered engineering firm.
6. Applicant Name - must be a person with fiduciary responsibilities associated with the Company.  
Job Title - examples: Owner, President or Vice President of Corporation/Home Owner Association, Manager.  
Company Name - examples: Project owner, Corporation, Home Owner Association, Municipality.  
Mailing Address, City, State, Zip Code - location of applicant, will be put on certificate.  
Phone number, ext and fax - applicant's phone, extension and fax number.  
Email address - applicant's email address.
7. Authorization - No one other than named applicant can sign the application unless there is a letter of authorization, attach.

### ATC FEES

| Public water supply system                              |                         | Sewer collection system                |                                 |        |                          |
|---|-------------------------|--|---------------------------------|--------|--------------------------|
| \$250.  | 150 or less connections | Gravity Sewer only, including manholes |                                 |        |                          |
| \$500.  | 151 to 300 connections  | \$500.                                 | Serving 50 connections or less  |        |                          |
| \$750.  | 301 to 450 connections  | \$1000.                                | Serving 51 to 300 connections   |        |                          |
| \$1000.   | 451 to 600 connections  | \$1500.                                | Serving 301 or more connections |        |                          |
| \$1250.   | 601 to 750 connections  | Force Mains + Gravity Sewer            |                                 |        |                          |
| \$1500.   | 751 to 900 connections  | \$800.                                 | Serving 50 connections or less  |        |                          |
| (every 150 add \$250.)                                  |                         | \$1300.                                | Serving 51 to 300 connections   |        |                          |
| Septic Soils and Hydrology Report                       |                         | \$1800.                                | Serving 301 or more connections |        |                          |
| \$300.  | 50 lots or less         | Other Components                       |                                 |        |                          |
| \$600.  | 51 to 100 lots          | \$350.                                 | Storage Tanks                   | \$500. | Master Plans             |
| \$900.  | 101 to 150 lots         | \$350.                                 | Wells                           | \$250. | Reuse lines              |
| \$1200.   | 151 to 200 lots         | \$350.                                 | Pressure Tanks                  | \$150. | Chlorination             |
| (every 50 lots add \$300. to the total for the project) |                         | \$350.                                 | Sewer Lift Station              | \$150. | Reissue (each component) |
|   |                         | \$350.                                 | Booster Stations                | \$150. | Other                    |
| ❖ Double the fee for expedited review.                  |                         |  |                                 |        |                          |
| ❖ Any fee questions contact MCESD                       |                         |  |                                 |        |                          |



Application for Approval to Construct and/or  
Provisional Verification of General Permit Conformance \*\*  
for  
Water/Wastewater Facilities

4. Name of Registered Engineer : Jennifer Hill  
Phone Number (602) 567-4000 Ext          Fax Number (602) 567-4001

Email address jhill@brwmcald.com

Name of Engineer's Firm as Registered  
With The AZ Board of Technical Registration Brown and Caldwell

Mailing Address 201 E. Washington St., Suite 500

City Phoenix State AZ Zip Code 85004

6. Applicant Name: Brian Vandenson Job Title Operations Engineer  
(must be a person with fiduciary responsibilities associated with the Company)  
(Please print legibly)

Company Name Arizona American Water

Mailing Address 19820 N. 7th Street, Suite 201

City Phoenix State AZ Zip Code 85024

Phone Number (623) 445-2497 Ext          Fax Number (623) 445-2454

Email address Brian.Vandenson@amwater.com

7. Authorization

The applicant hereby authorizes the review of project plans as described for approval to construct and/or provisional verification of conformance under General Aquifer Protection Permit 4.01.

  
Signature of Applicant

Brian Vandenson  
Please print name

9/1/05  
Date

\*\* This application constitutes the Notice of Intent to Discharge referenced by R18-9-A301.B.

**NO APPLICATION WILL BE ACCEPTED UNLESS FULLY COMPLETED**

|  |  |
|--|--|
| Department use only                      |  |
| Water MCESD# <u>                    </u> | Check Number <u>                    </u> |
| Sewer MCESD# <u>                    </u> | Amount paid <u>                    </u>  |
| Other MCESD# <u>                    </u> |  |

## **EXHIBIT JMR-RB6**

Decision No. 68303, dated November 14, 2005  
Public Safety/Fire Flow plant accounting order

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER

Chairman

WILLIAM A. MUNDELL

Commissioner

MARC SPITZER

Commissioner

MIKE GLEASON

Commissioner

KRISTIN K. MAYES

Commissioner

Arizona Corporation Commission

DOCKETED

NOV 14 2005

DOCKETED BY

*[Signature]*

IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN WATER  
COMPANY, INC.'S REQUEST FOR AN  
ACCOUNTING ORDER AUTHORIZING  
THE DEFERRAL OF COSTS ASSOCIATED  
WITH PUBLIC SAFETY/FIRE FLOW  
IMPROVEMENTS IN ITS PARADISE  
VALLEY WATER DISTRICT

DOCKET NO. W-01303A-05-0704

DECISION NO. 68303

PUBLIC SAFETY/FIRE FLOWS

ACCOUNTING ORDER

Open Meeting

November 8 and 9, 2005

Phoenix, Arizona

BY THE COMMISSION:

On June 3, 2005, Arizona-American Water Company ("Arizona-American" or "Company") filed a rate application, Docket No. W-01303A-05-0405, with the Arizona Corporation Commission ("Commission") for a determination of the current fair value of its utility plant and property and for increases in its rates and charges based thereon for utility service by its Paradise Valley water district. Within that application was a request for an accounting order authorizing the deferral of capital costs incurred by the Company's Paradise Valley system related to public safety associated with fire flows.

A hearing on the rate application is scheduled to commence on March 27, 2006.

Pursuant to Staff's request to aid the Company in its request for expedited action, on October 5, 2005, the Company filed a request to bifurcate its rate application and to separate the accounting order portion from the rate application. The Company requests an accounting order authorizing the deferral of capital costs by the Company's Paradise Valley system related to public safety associated with fire flows.



1 The Town of Paradise Valley ("Town") has requested the fire-flow improvements since  
2 they are needed to reduce the risk to life and property. Mr. Thomas M. Martinsen, the town  
3 manager of the Town has requested expedited review. Town residents' safety and the protection  
4 of their property are highly dependent on this program.

5 \* \* \* \* \*

6 Having considered the Company's application and Staff's memorandum dated October 20,  
7 2005, the Commission finds, concludes, and orders that:

8 FINDINGS OF FACT

9 1. Arizona-American is a Class-A regulated water and wastewater utility which serves  
10 approximately 131,000 customers throughout the state of Arizona pursuant to various Certificates  
11 of Convenience and Necessity granted by the Commission to the Company and its predecessors in  
12 interest.

13 2. The Company's deferral request in this docket pertains only to the Company's  
14 Paradise Valley water district, where the Company provides service to approximately 5,000  
15 customers in portions of Paradise Valley, Scottsdale and unincorporated Maricopa County.

16 3. The Company seeks an accounting order in this proceeding authorizing the deferral  
17 of capital costs and expenses it expects to incur before these costs can be recognized in rates. An  
18 accounting order is a rate-making mechanism whereby a regulatory commission provides specific  
19 deferral authorization to treat costs in a manner that differs from generally accepted accounting  
20 principles. Such a deferral mechanism, pursuant to an authorized accounting order, is permitted  
21 under National Association of Regulatory Commissioners ("NARUC") Uniform System of  
22 Accounts ("USOA") guidelines.

23 4. Arizona-American seeks an accounting order authorizing it to defer capital costs,  
24 specifically depreciation expense and "gross return" related to public safety/fire flow improvement  
25 facilities placed into service in Paradise Valley.

26 5. The Town has requested the fire-flow improvements since the improvements are  
27 needed to reduce the risk to life and property.

28 ...

6. The Company proposes to include capital expenditures for projects that a) improve fire flows, b) produce no significant additional revenues, and c) do not materially reduce operating expenses. Records will be maintained to segregate the cost of eligible capital investments and capital investments that would otherwise be made during the due course of the Paradise Valley on-going operations.

7. Staff's recommendation for approval of an accounting order for Arizona-American is subject to the following conditions:

- a) The deferral is limited to eligible Company expenditures in the Paradise Valley water district related to public safety/fire flow.
- b) The Company shall be required to prepare and retain accounting records sufficient to permit detailed review, in a rate proceeding, of all deferred costs related to public safety/fire flow improvement facilities.
- c) The deferral is related to projects that are revenue neutral.
- d) The deferral is related to projects that do not materially reduce operating expenses.
- e) The Company's deferral is limited to depreciation expense (at authorized depreciation rates) and a post-in-service allowance for funds used during construction ("AFUDC"), with the rate set at its cost of debt concurrent with the deferral period.
- f) The post-in-service AFUDC will automatically cease when, and if, the related plant is placed in rate base and recognized in a rate proceeding.

8. While issuance of an accounting order authorizing deferral of the costs being incurred will not assure the Company that those costs will be recovered in rates, without such an accounting order, the Company would be foreclosed from possible future recovery of such costs as a regulatory asset.

9. A determination regarding the recovery of the deferral will be made in the Company's instant rate case or the Company's future rate cases for the Paradise Valley water district.

## CONCLUSIONS OF LAW

1. The Company is a public water service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250 and 40-252.

2. The Commission has jurisdiction over the Company and of the subject matter of the application.

1           3.     The cost deferral authorization granted herein does not constitute a finding or  
2 determination that such costs are reasonable, appropriate, or prudent.

3           4.     It is in the public interest to allow the Company to record the capital costs for  
4 projects that improve fire flows, produce no significant additional revenues, and do not materially  
5 reduce operating expenses in a deferred account for the Paradise Valley water district, subject to  
6 the conditions recommended by Staff as set forth and discussed herein.

7                                 ORDER

8           IT IS THEREFORE ORDERED that the application by Arizona-American Water  
9 Company for an accounting order to improve fire flows for public safety is approved, authorizing  
10 the deferral of depreciation expense (at authorized depreciation rates) and a post-in-service  
11 AFUDC, with the rate set at its cost of debt concurrent with the deferral period, subject to the  
12 conditions and requirements recommended by Staff, as described herein.

13          IT IS FURTHER ORDERED that the cost deferral authorization granted herein does not  
14 constitute a finding or determination that the deferred costs are reasonable, appropriate, or prudent.

15          IT IS FURTHER ORDERED that this Decision shall not be construed as providing the  
16 Arizona-American Water Company any relief through rates with respect to the ultimate recovery  
17 of the above-authorized cost deferrals.

18          IT IS FURTHER ORDERED that the Company shall prepare and retain accounting records  
19 sufficient to permit detailed review, in a rate proceeding, of all deferred costs recorded as  
20 authorized above.

21 ...

22 ...

23 ...

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26 ...

27 ...

28 ...

1 IT IS FURTHER ORDERED that a determination of recovery of the deferral will be made  
2 in the Company's instant rate case or the Company's future rate cases for the Paradise Valley  
3 water district.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5  
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7   
8  
9 CHAIRMAN

  
COMMISSIONER

10  
11   
12 COMMISSIONER

  
COMMISSIONER

  
COMMISSIONER

13 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive  
14 Director of the Arizona Corporation Commission, have  
15 hereunto, set my hand and caused the official seal of this  
16 Commission to be affixed at the Capitol, in the City of  
17 Phoenix, this 14th day of November, 2005.

18  
19   
20 BRIAN C. McNEIL  
Executive Director

21 DISSENT: \_\_\_\_\_

22  
23 DISSENT: \_\_\_\_\_

24 EGJ:JRM:rdp/  
25  
26  
27  
28

Decision No. 68303

1 SERVICE LIST FOR: Arizona-American Water Company, Inc.  
2 DOCKET NO. W-01303A-05-0704

3 Mr. Craig A. Marks  
4 Arizona-American Water Company  
5 101 Corporate Center  
6 19820 North 7th Street, Suite 201  
7 Phoenix, Arizona 85024

8 Mr. Scott S. Wakefield  
9 RUCO  
10 1110 West Washington Street  
11 Suite 220  
12 Phoenix, Arizona 85007

13 Mr. Ernest G. Johnson  
14 Director, Utilities Division  
15 Arizona Corporation Commission  
16 1200 West Washington  
17 Phoenix, Arizona 85007

18 Mr. Christopher C. Kempley  
19 Chief Counsel  
20 Arizona Corporation Commission  
21 1200 West Washington  
22 Phoenix, Arizona 85007  
23  
24  
25  
26  
27  
28

## **EXHIBIT JMR-RB7**

Staff's response to Company data request AAW 2.1

**COMMISSIONERS**  
JEFF HATCH-MILLER - Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES



BRIAN C. McNEIL  
Executive Director

**ARIZONA CORPORATION COMMISSION**

January 31, 2006

Craig A. Marks, Esq.  
Arizona American Water  
101 Corporate Center  
19820 N. 7th Street, Ste. 201  
Phoenix, AZ 85024

*Via E-Mail to [Craig.marks@amwater.com](mailto:Craig.marks@amwater.com)  
Original Mailed*

Re: Docket No. WS-01303A-05-0405  
Arizona Corporation Commission's Responses to  
Arizona-American's Second Set of Data Requests

Dear Mr. Marks:

Enclosed are Staff's responses to Arizona-American's second set of data requests to the Arizona Corporation Commission in the above-referenced matter. Please do not hesitate to contact me if you have any questions regarding the responses.

Very truly yours,

A handwritten signature in black ink, appearing to read "Diane M. Targovnik", with a stylized flourish at the end.

Diane M. Targovnik  
Attorney, Legal Division  
(602) 542-3402

DMT:daw  
Enclosures

cc: Darron W. Carlson  
James Dorf

**ARIZONA CORPORATION COMMISSION STAFF  
RESPONSES TO ARIZONA-AMERICAN WATER COMPANY'S  
SECOND SET OF DATA REQUESTS  
(Docket No. WS-01303A-05-0405)**

January 31, 2006

**AAW 2.1**      **Reference Igwe direct, p. 12 at 5 thru p. 14 at 4. Please identify the entries included in the Company's response to RUCO data request 9.03 that Staff believes should have been allocated to specific operating districts, and ultimately lead to Staff Operating Expense Adjustment No. 5.**

**Respondent: Darron Carlson**

**Response:**    As per Igwe direct, p. 12 at 16, Staff reviewed the invoices supplied by the Company. The entries mentioned in your data request do not provide enough information to enable Staff to identify much beyond dates and dollar amounts. Following find a summary of the items that Staff took note of and believes should have been directly allocated to the district(s) that benefited from the expenditure (and in a few instances notates other reasons that would facilitate a recommendation of disallowance):

**Pg.1 1-8**

|            |                                      |         |
|------------|--------------------------------------|---------|
| 05/28/2004 | West Valley View subscription        | \$48.00 |
| 05/28/2004 | ACC/City of Surprise lunch           | 85.92   |
| 06/14/2004 | Wastewater collection review class   | 155.00  |
| 10/25/2004 | Northwest Valley Chamber of Commerce | 800.00  |

**Pg.1 9-15**

|            |   |        |
|------------|---|--------|
| 12/31/2003 | Wal-Mart – Anthem employee of Quarter   | 40.00  |
| 01/23/2004 | West Side Food Bank                     | 500.00 |
| 03/23/2004 | Wal-Mart – Sun City employee of Quarter | 25.00  |
| 07/11/2004 | Target – Sun City employee of Quarter   | 25.00  |
| 09/15/2004 | Target – Sun City employee of Quarter   | 25.00  |

**Pg.1 18-36**

None specific

**Pg.2 62-67**

|            |   |        |
|------------|---|--------|
| 08/31/2004 | Interstate Battery – Northwest Valley Reclamation | 84.01  |
| 08/13/2004 | Interstate Battery – Northwest Valley Reclamation | 106.26 |
| 08/13/2004 | I P Steel – shade for Agua Fria lift station      | 396.00 |
| 10/06/2004 | Buckeye Valley Chamber of Commerce                | 25.00  |



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SECOND SET OF DATA REQUESTS  
(Docket No. WS-01303A-05-0405)**

January 31, 2006

Pg.2 68

|            |   |          |
|------------|---|----------|
| 09/04/2004 | Weed control bills – vague but list Agua Fria,<br>Litchfield, PHX OM Luke, etc. | 2,600.00 |
|------------|---|----------|

Pg.3 10-102

None specific

Pg.3 71-84

|            |  |        |
|------------|--|--------|
| 12/03/2003 | Diaz Lawn Maintenance – Repair Sun City main break | 701.50 |
|------------|--|--------|

Pg.3 94-9

|            |  |        |
|------------|--|--------|
| 01/13/2004 | Ace Hardware – Anthem                    | 30.06  |
| 01/13/2004 | Ace Hardware – Anthem                    | 29.30  |
| 01/19/2004 | Chevron – propane for forklift New River | 14.30  |
| 08/30/2004 | Ace Hardware – Anthem                    | 29.32  |
| 08/24/2004 | Ace Hardware – Anthem                    | 12.29  |
| 08/24/2004 | Ace Hardware – Anthem                    | 8.48   |
| 08/29/2004 | Chevron – propane for forklift New River | 17.64  |
| 10/11/2004 | Southwest Rubber – hose for sludge truck | 541.40 |

Pg.4 1-17

|            |   |        |
|------------|---|--------|
| 08/02/2004 | News West – Advertising in Bullhead City, Az. | 766.48 |
|------------|---|--------|

Pg.4 2

|            |  |        |
|------------|--|--------|
| 07/30/2004 | Advertising bill to Sun City Water not Az-Am | 542.52 |
|------------|--|--------|

Pg.4 21-25

|            |   |       |
|------------|---|-------|
| 11/08/2004 | Fennemore Craig – acquisition of Citizens | 80.50 |
|------------|---|-------|

Pg.4 26-31

None specific

**ARIZONA CORPORATION COMMISSION STAFF  
RESPONSES TO ARIZONA-AMERICAN WATER COMPANY'S  
SECOND SET OF DATA REQUESTS  
(Docket No. WS-01303A-05-0405)**

January 31, 2006

Pg.4 32

|            |  |           |
|------------|--|-----------|
| 08/31/2004 | JRP Group – fee for hiring Engineer<br>(While not an issue of allocation – certainly this is a<br>non recurring expense) | 33,000.00 |
|------------|--|-----------|

Pg.5 34

None specific

Pg. 5 38

|            |  |        |
|------------|--|--------|
| 02/20/2004 | Greenstripe Media – air time in Lake Havasu, Az. | 672.00 |
|------------|--|--------|

Pg.5 51

|  |                              |        |
|--|------------------------------|--------|
|  | Sabrosa District - New River | 700.00 |
|--|------------------------------|--------|

Pg.5 53-60

|            |   |        |
|------------|---|--------|
| 12/11/2003 | Woodenship – Northwest Chamber of Commerce ad | 615.50 |
| 04/17/2004 | Woodenship – Bullhead City ad                 | 445.13 |
| 09/30/2004 | Woodenship = Hardyville days ad               | 426.50 |

Pg.5 61-67

|               |  |          |
|---------------|--|----------|
| Not test year | Woodenship – November 2003 publication     | 5,298.14 |
| 03/12/2004    | Woodenship –Lake Havasu                    | 1,150.00 |
| 02/27/2004    | Woodenship – Water Quality Notice - not PV | 590.00   |

Pg.6 68-74

|            |                                   |        |
|------------|-----------------------------------|--------|
| 03/11/2004 | Direct Impact – small system CCRs | 129.50 |
|------------|-----------------------------------|--------|

Pg.6 77-102

|            |   |          |
|------------|---|----------|
| 03/06/2004 | Diamond Ball – Wigwam Resort Litchfield Park, Az. | 5,000.00 |
| 10/02/2004 | Southwest Valley Chamber of Commerce              | 150.00   |

**ARIZONA CORPORATION COMMISSION STAFF  
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SECOND SET OF DATA REQUESTS  
(Docket No. WS-01303A-05-0405)**

January 31, 2006

Pg.7 103-140

|            |  |          |
|------------|--|----------|
| 02/27/2004 | City of Goodyear – West Valley Water Coalition | 2,500.00 |
| 04/15/2004 | Sun City West, Az.                             | 6,431.11 |
| 03/15/2004 | Westmarc – dues                                | 5,000.00 |
| Quarterly  | AUIA dues 1250 X 4 – 100% shareholder expense  | 5,000.00 |

Pg.8 141-154

|            |                                       |          |
|------------|---------------------------------------|----------|
| 10/11/2004 | Fry's – snacks Youngtown – Sun City   | 5.67     |
| 10/13/2004 | Chick-fil-A – Youngtown – Sun City    | 4.00     |
| 10/14/2004 | Chick-fil-A – Youngtown – Sun City    | 12.22    |
| 10/14/2004 | Anthem Community Center               | 1,000.00 |
| 10/15/2004 | TEC Learning – wastewater training    | 70.00    |
| 11/22/2004 | IOWUA dues – 100% shareholder expense | 2,000.00 |

Pg.8 155

None specific

Pg.8 157

|   |           |
|---|-----------|
| NAWC dues – Az-Am made no deduction for<br>lobbying portion of dues & should be aware that<br>Commission requires such an adjustment. | 21,823.00 |
|---|-----------|

Pg.8 161-174

Extensive board member fees

Pg.8 178-185

Extensive board member fees and travel expenses.

Pg.10 212-230

|            |  |        |
|------------|--|--------|
| 01/12/2004 | American Fence – fence rental in Anthem, Az. | 176.22 |
|------------|--|--------|

Although there are many more entries in the miscellaneous account, the Company did not provide any more invoices to substantiate expenses other than reviewed in the above noted pages.

# **EXHIBIT JMR-RB8**

**Documentation in support of Company Income Statement  
Adjustment AAW-5**

**COMPANY: ARIZONA AMERICAN WATER**  
**DISTRICT(S): PARADISE VALLEY DISTRICT**  
**DOCKET NO: WS-01303A-05-0405**

**Response provided by:** Joel M. Reiker

**Title:** Intermediate Rate Analyst

**Address:** 19820 North 7<sup>th</sup> Street, Suite 201  
Phoenix, AZ 85024-1694

**Company Response Number:** RUCO 7.04

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**Q. Allocated Expenses** – Further to RUCO data request 5.09 and with reference to the Company's response to provide documentation to substantiate the Corporate Office costs, please review the response and accurately address the question. Specifically;

- a. Provide the ledger detail of all transactions in the aggregate total of Management Fees totaling \$6,598,018;
- b. Provide the ledger detail of all transactions in the aggregate total of Miscellaneous costs totaling \$1,810,024;
- c. Explain the discrepancy between amounts recorded on Company's workpaper "Corp Allocation.xls Details" for "Insurance Other Than Group" in the amounts of \$605,605 for 2004 Corp and \$0.00 for 2004 Central Div and the amounts recorded on workpaper #311 of \$638,447 and workpaper #328 of \$2,811;
- d. Explain the discrepancy between amounts recorded on the Company's workpaper "Corp Allocation.xls Details" for "Miscellaneous" in the amount of \$538,251 for 2004 Central Div and the amount recorded on workpaper #330 of \$537,302;
- e. Explain why the amount recorded on Company workpaper "Corp Allocation.xls Details" for "Rent" in the amount of \$141,181 for 2004 Corp is not reduced by the amount of \$14,593 as stated by the Company in its response to RUCO data request 5.02 b & c; and
- f. Explain the type of costs that are included in the "Labor" category of \$1,154,237 versus the "Management Fees" Labor of \$4,107,078 as recorded on workpaper #310.

**COMPANY: ARIZONA AMERICAN WATER**  
**DISTRICT(S): PARADISE VALLEY DISTRICT**  
**DOCKET NO: WS-01303A-05-0405**

- A. a. Please see \RUCO 7.04.a.pdf\.
- b. Please see \RUCO 7.04.b.xls\.
- c. The amount recorded on the Company's workpaper \Corp Allocation.xls\Details for AZ-Corporate, \$605,605 is the amount recorded for Arizona American Water – Total Company (see workpaper page 281). It is necessary to use this figure, rather than the AZ-Corporate amount of \$638,447 (see workpaper 311) because, while the gross amount is charged to AZ-Corporate, the amounts transferred to construction are credited to each district, and therefore not reflected on the AZ-Corporate income statement. Therefore, it is necessary to use the amount reported on the Arizona American – Total Company income statement.
- d. The amount recorded on workpaper 330, \$537,302, is the correct amount.
- e. The amount, \$141,181 for AZ Corp. should not be reduced by the amount \$14,593 because the amount, \$14,593 was not charged to BU 2301 (AZ Corp.), it was charged to BU 2320 (Cent. Div. Corp.). Therefore, the amount, \$19,971 for Central Div. Corp – Rent in \Corp Allocation.xls\, should actually be reduced by the amount \$14,593. The effect is the same. See \RUCO 7.04.e.pdf\.
- f. The amount, \$1,154,237, charged to AZ Corp. and Central Div. Corp. is related to the employees listed in the \Benefits\ tab in \Corp Allocation.xls\. These employees work for Arizona American Water Co. and are located in Arizona. Their position titles are listed in column 'E'.

The amount, \$4,107,078, for Management Fees labor is for Service Company labor. Service Company labor includes the call center, accounting, administration, audit, communications, legal, engineering, finance, human resources, information systems/financial, operations, rates and revenues, water quality, and risk management.

**COMPANY:** ARIZONA AMERICAN WATER  
**DISTRICT(S):** PARADISE VALLEY DISTRICT  
**DOCKET NO:** WS-01303A-05-0405

**Response provided by:** David Weber

**Title:** Senior Financial Analyst

**Address:** 3906 Church Road  
Mount Laurel, NJ 08054

**Company Response Number:** RUCO 5-02

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- Q. Income Statement – With reference to the Company's response to RUCO data request 3.06 and adjustment – B-3 and B-4 – to normalize and reclassify office lease expenses, please provide additional documentation to substantiate:
- a. Test year rent expense of \$24,086.30 (identify the general ledger account where this amount was recorded);
  - b. The \$18,241 adjustment to reclassify office-lease costs erroneously capitalized in the test year; and
  - c. Identify the capital account number where the \$18,241 was recorded in the test year.

- A.
- a. The \$24,086.30 was recorded to PVWC's account 931 'Rents Real Property'.
  - b. (and c. ) The \$18,241 was recorded \$14,593 to Arizona-American Corporate district's account 931 'Rents Real Property' and \$3,648 to Arizona-American Corporate district's account 184 'Engineering Overhead'. [See attached spreadsheet for listing of payments]

## Account 931 Account 184

| DOC#     | DOC TYPE | VENDOR                        | AMOUNT      | DATE     | YEAR | EXPENSED TO AZAM | CAPITALIZED TO AZAM | TOTAL        |
|----------|----------|-------------------------------|-------------|----------|------|------------------|---------------------|--------------|
| 40806115 | PR       | 23000664 Dan Madison & Co Inc | \$ 3,561.16 | 08/05/04 | 2004 | \$               | \$ 712.23           | \$ 3,561.16  |
| 40810641 | PV       | 23000664 Dan Madison & Co Inc | \$ 62.21    | 07/29/04 | 2004 | \$               | 12.44               | \$ 62.21     |
| 40810642 | PV       | 23000664 Dan Madison & Co Inc | \$ 62.21    | 07/29/04 | 2004 | \$               | 12.44               | \$ 62.21     |
| 40810643 | PV       | 23000664 Dan Madison & Co Inc | \$ 124.39   | 07/29/04 | 2004 | \$               | 24.88               | \$ 124.39    |
| 40810644 | PV       | 23000664 Dan Madison & Co Inc | \$ 62.21    | 07/29/04 | 2004 | \$               | 12.44               | \$ 62.21     |
| 40810645 | PV       | 23000664 Dan Madison & Co Inc | \$ 62.21    | 07/29/04 | 2004 | \$               | 12.44               | \$ 62.21     |
| 40810646 | PV       | 23000664 Dan Madison & Co Inc | \$ 62.21    | 07/29/04 | 2004 | \$               | 12.44               | \$ 62.21     |
| 40832522 | PR       | 23000664 Dan Madison & Co Inc | \$ 3,561.16 | 09/05/04 | 2004 | \$               | 712.23              | \$ 3,561.16  |
| 40857369 | PR       | 23000664 Dan Madison & Co Inc | \$ 3,561.16 | 10/05/04 | 2004 | \$               | 712.23              | \$ 3,561.16  |
| 40879955 | PR       | 23000664 Dan Madison & Co Inc | \$ 3,561.16 | 11/05/04 | 2004 | \$               | 712.23              | \$ 3,561.16  |
| 40903397 | PR       | 23000664 Dan Madison & Co Inc | \$ 3,561.16 | 12/05/04 | 2004 | \$               | 712.23              | \$ 3,561.16  |
| Totals   |          |                               |             |          |      | \$               | \$ 3,648.23         | \$ 18,241.24 |



Thru Date/Per 12/10/04  
Ledger Type. AA  
Sub Ledger/Ty \*  
Currency Code

| DT  | Document | Date     | Explanation  | Batch                          | Subi./MO# | Debit  | Credit | Currency Code |
|-----|----------|----------|--|--------------------------------|-----------|--------|--------|---------------|
| PV  | 40630382 | 12/15/03 | U Haul - PO/REMIT<br>CUST 99003875                                       | 3220156<br>Batch Date 12/15/03 |           | 79.14  |        | P             |
| PV  | 40630370 | 12/15/03 | U Haul - PO/REMIT<br>CUST 99003875                                       | 3220156<br>Batch Date 12/15/03 |           | 79.14  |        | P             |
| PS  | 40634487 | 12/18/03 | Youngtown Mini Storage - REMIT<br>Storage Unit #74 - 6 mo.<br>Unite 1.00 | 3222073<br>Batch Date 12/18/03 |           |        |        | P             |
| PR  | 40641237 | 01/01/04 | U Haul - PO/REMIT<br>STORAGE UNIT 3311                                   | 3225074<br>Batch Date 12/29/03 |           | 461.70 |        | P             |
| PR  | 40641238 | 01/01/04 | U Haul - PO/REMIT<br>STORAGE UNIT 3311                                   | 3225074<br>Batch Date 12/29/03 |           | 111.42 |        | P             |
| PR  | 40641239 | 01/01/04 | U Haul - PO/REMIT<br>STORAGE UNIT 3311                                   | 3225074<br>Batch Date 12/29/03 |           | 111.42 |        | P             |
| PV  | 40645709 | 01/05/04 | U Haul - PO/REMIT<br>CUST #99003875                                      | 3227035<br>Batch Date 01/05/04 |           | 79.14  |        | P             |
| PV  | 40647668 | 01/07/04 | U Haul - PO/REMIT<br>CUST #99003875                                      | 3227944<br>Batch Date 01/07/04 |           | 89.14  |        | P             |
| PV  | 40653079 | 01/13/04 | U Haul - PO/REMIT<br>CUST #99003875                                      | 3230456<br>Batch Date 01/13/04 |           | 82.70  |        | P             |
| PV  | 40658472 | 01/20/04 | U Haul - PO/REMIT<br>CUST #99003875                                      | 3234427<br>Batch Date 01/20/04 |           | 79.14  |        | P             |
| PR  | 40664449 | 02/01/04 | U Haul - PO/REMIT<br>STORAGE UNIT 3313                                   | 3238015<br>Batch Date 01/27/04 |           | 111.42 |        | P             |
| PR  | 40664450 | 02/01/04 | U Haul - PO/REMIT<br>STORAGE UNIT 3313                                   | 3238015<br>Batch Date 01/27/04 |           | 111.42 |        | P             |
| PR  | 40666755 | 02/01/04 | U Haul - PO/REMIT<br>STORAGE UNIT 3311                                   | 3239918<br>Batch Date 01/29/04 |           | 111.42 |        | P             |
| PV  | 40676017 | 02/11/04 | U Haul - PO/REMIT<br>CUST #99003875                                      | 3246839<br>Batch Date 02/11/04 |           | 79.14  |        | P             |
| PV  | 40676019 | 02/11/04 | U Haul - PO/REMIT<br>CUST #99003875                                      | 3246839<br>Batch Date 02/11/04 |           | 82.70  |        | P             |
| CCC | 159040   | 02/26/04 | ROBERT GARCIA  | 3254575<br>Batch Date 02/26/04 |           | 10.78  |        | P             |
| PR  | 40673878 | 03/01/04 | U Haul - PO/REMIT<br>STORAGE UNIT 3313                                   | 3245629<br>Batch Date 02/09/04 |           | 111.42 |        | P             |
| PR  | 40673880 | 03/01/04 | U Haul - PO/REMIT<br>STORAGE UNIT 3313                                   | 3245629<br>Batch Date 02/09/04 |           | 111.42 |        | P             |

**Rents-Real Prop Oper AG**

| DT Document | Date     | Explanation                                     | Batch                          | Subl/Wo# | Debit  | Credit |
|-------------|----------|---|--------------------------------|----------|--------|--------|
| PR 40673881 | 03/01/04 | U Haul - PO/REMIT<br>STORAGE UNIT#311           | 3345629<br>Batch Date 02/09/04 |          | 111.42 |        |
| PV 40698668 | 03/11/04 | U Haul - PO/REMIT<br>CUST# 99003875             | 3362815<br>Batch Date 03/11/04 |          | 61.30  |        |
| PV 40701737 | 03/16/04 | U Haul - PO/REMIT<br>CUST # 99003875            | 3364554<br>Batch Date 03/16/04 |          | 89.14  |        |
| PV 40715193 | 04/01/04 | U Haul - PO/REMIT<br>cust #99003875             | 3374125<br>Batch Date 04/01/04 |          | 89.14  |        |
| PV 40715233 | 04/01/04 | U Haul - PO/REMIT<br>cust #99003875             | 3374289<br>Batch Date 04/01/04 |          | 61.30  |        |
| PR 40718023 | 04/05/04 | U Haul - PO/REMIT<br>storage unit 3313          | 3276287<br>Batch Date 04/06/04 |          | 111.42 |        |
| PR 40718027 | 04/05/04 | U Haul - PO/REMIT<br>storage unit 3315          | 3276287<br>Batch Date 04/06/04 |          | 111.42 |        |
| PR 40718030 | 04/05/04 | U Haul - PO/REMIT<br>storage unit 3311          | 3276287<br>Batch Date 04/06/04 |          | 111.42 |        |
| PV 40731323 | 04/23/04 | U Haul - PO/REMIT<br>ORDER# 721044 00014194     | 3285715<br>Batch Date 04/23/04 |          | 82.70  |        |
| PV 40737496 | 04/29/04 | U Haul - PO/REMIT<br>SERVICES RENDERED          | 3289426<br>Batch Date 04/29/04 |          | 61.30  |        |
| PR 40734289 | 05/05/04 | U Haul - PO/REMIT<br>storage unit 3313          | 3287005<br>Batch Date 04/27/04 |          | 111.42 |        |
| PR 40734290 | 05/05/04 | U Haul - PO/REMIT<br>storage unit 3315          | 3287005<br>Batch Date 04/27/04 |          | 111.42 |        |
| PR 40734291 | 05/05/04 | U Haul - PO/REMIT<br>storage unit #311          | 3287005<br>Batch Date 04/27/04 |          | 111.42 |        |
| PR 40734367 | 05/05/04 | Tubac Trailer Tether - REMIT<br>RENTS REAL PROP | 3287005<br>Batch Date 04/27/04 |          | 246.45 |        |
| PV 40748435 | 05/14/04 | U Haul - PO/REMIT<br>SERVICES RENDERED          | 3287926<br>Batch Date 05/14/04 |          | 92.70  |        |
| PV 40763927 | 06/03/04 | U Haul - PO/REMIT<br>CUST #99003875             | 3308911<br>Batch Date 06/03/04 |          | 89.14  |        |
| PV 40763929 | 06/03/04 | U Haul - PO/REMIT<br>CUST #99003875             | 3308911<br>Batch Date 06/03/04 |          | 64.87  |        |
| PV 40764645 | 06/04/04 | U Haul - PO/REMIT<br>CUST 99003875              | 3309699<br>Batch Date 06/04/04 |          | 79.14  |        |

09200P Account Ledger Print

Account 232005.541000.16 Rents-Real Prop Oper AG

Date - 1/18/06  
Page 3  
From Date/Per 12/13/03  
Thru Date/Per 12/10/04  
Ledger Type AA  
Sub Ledger/Ty  
Currency Code P

| DT Document | Date     | Explanation   | Batch                          | Subl/MON | Debit  | Credit |
|-------------|----------|---|--------------------------------|----------|--------|--------|
| PR 40756867 | 06/05/04 | U Haul - PO/REMIT storage unit 3313                     | 3304454<br>Batch Date 05/25/04 |          | 111.42 |        |
| PR 40756868 | 06/05/04 | U Haul - PO/REMIT storage unit 3315                     | 3304454<br>Batch Date 05/25/04 |          | 111.42 |        |
| PR 40756869 | 06/05/04 | U Haul - PO/REMIT storage unit #311                     | 3304454<br>Batch Date 05/25/04 |          | 111.42 |        |
| PR 40756979 | 06/05/04 | Tubac Trailer Tether - REMIT RENTS REAL PROP            | 3304454<br>Batch Date 05/25/04 |          | 246.45 |        |
| PV 40773731 | 06/16/04 | U Haul - PO/REMIT CUST 99003875                         | 3315182<br>Batch Date 06/16/04 |          | 79.14  |        |
| PV 40773753 | 06/16/04 | U Haul - PO/REMIT CUST 99003875                         | 3315376<br>Batch Date 06/16/04 |          | 76.27  |        |
| PR 40783598 | 07/05/04 | U Haul - PO/REMIT storage unit 3313                     | 3323119<br>Batch Date 06/28/04 |          | 111.42 |        |
| PR 40783599 | 07/05/04 | U Haul - PO/REMIT storage unit 3315                     | 3323119<br>Batch Date 06/28/04 |          | 111.42 |        |
| PR 40783600 | 07/05/04 | U Haul - PO/REMIT storage unit #311                     | 3323119<br>Batch Date 06/28/04 |          | 111.42 |        |
| PR 40783706 | 07/05/04 | Tubac Trailer Tether - REMIT RENTS REAL PROP            | 3323119<br>Batch Date 06/28/04 |          | 246.45 |        |
| PV 40810641 | 07/29/04 | Dan Madison & Co Inc-REMIT expense recovery- AZ AmWater | 3341079<br>Batch Date 07/29/04 |          | 49.77  |        |
| PV 40810642 | 07/29/04 | Dan Madison & Co Inc-REMIT expense recovery/AZ AmerWtr  | 3341079<br>Batch Date 07/29/04 |          | 49.77  |        |
| PV 40810643 | 07/29/04 | Dan Madison & Co Inc-REMIT exp recov adjmt/AZ AmWater   | 3341079<br>Batch Date 07/29/04 |          | 99.51  |        |
| PV 40810644 | 07/29/04 | Dan Madison & Co Inc-REMIT exp recovery/AZ AmerWater    | 3341079<br>Batch Date 07/29/04 |          | 49.77  |        |
| PV 40810645 | 07/29/04 | Dan Madison & Co Inc-REMIT exp recovery/AZ AmerWater    | 3341079<br>Batch Date 07/29/04 |          | 49.77  |        |
| PV 40810646 | 07/29/04 | Dan Madison & Co Inc-REMIT exp recovery/ AZ AmerWater   | 3341079<br>Batch Date 07/29/04 |          | 49.77  |        |
| PV 40815333 | 08/04/04 | U Haul - PO/REMIT CUST 99003875                         | 3343573<br>Batch Date 08/04/04 |          | 93.59  |        |
| PR 40806061 | 08/05/04 | U Haul - PO/REMIT                                       | 3338274                        |          | 111.42 |        |

Invoice 2042339  
User ID BROOKAC  
Invoice UH030104  
User ID BROOKAC  
Invoice UH030104A  
User ID BROOKAC  
Invoice UH030104B  
User ID BROOKAC  
Invoice PR91  
User ID BROOKAC  
Invoice 2046032  
User ID BROOKAC  
Invoice 2046249  
User ID BROOKAC  
Invoice UH030104  
User ID BROOKAC  
Invoice UH030104A  
User ID BROOKAC  
Invoice UH030104B  
User ID BROOKAC  
Invoice PR91  
User ID BROOKAC  
Invoice 620  
User ID BROOKAC  
Invoice 611  
User ID BROOKAC  
Invoice 584  
User ID BROOKAC  
Invoice 591  
User ID BROOKAC  
Invoice 601  
User ID BROOKAC  
Invoice 629  
User ID BROOKAC  
Invoice 1067631

Rents-Real Prop Oper AG

| DT Document | Date     | Explanation                                      | Batch                          | Subl/NO# | Debit    | Credit    | Sub Ledger/ty                           | Currency Code |
|-------------|----------|--|--------------------------------|----------|----------|-----------|---|---------------|
| PR 40806062 | 08/05/04 | U Haul - PO/REMIT<br>storage unit 3313           | 3338274<br>Batch Date 07/26/04 |          | 111.42   |           | User ID BROOKAC<br>Invoice UH030104     |               |
| PR 40806063 | 08/05/04 | U Haul - PO/REMIT<br>storage unit #311           | 3338274<br>Batch Date 07/26/04 |          | 111.42   |           | User ID BROOKAC<br>Invoice UH030104A    |               |
| PR 40806115 | 08/05/04 | Dan Madison & Co Inc-REMIT<br>RENTS-REAL PROP O  | 3338274<br>Batch Date 07/26/04 |          | 2,848.93 |           | User ID BROOKAC<br>Invoice UH030104B    |               |
| PR 40806165 | 08/05/04 | Tubac Trailer Tether - REMIT<br>RENTS REAL PROP  | 3338274<br>Batch Date 07/26/04 |          | 246.45   |           | User ID BROOKAC<br>Invoice PR36         |               |
| PR 40833656 | 08/27/04 | U Haul - PO/REMIT<br>cust 99003875 AZ Amer Water | 3357319<br>Batch Date 08/27/04 |          | 120.34   |           | User ID BROOKAC<br>Invoice PR91         |               |
| PR 40833679 | 08/27/04 | U Haul - PO/REMIT<br>cust 99003875 AZ Amer Water | 3357319<br>Batch Date 08/27/04 |          | 93.59    |           | User ID BROOKAC<br>Invoice STORAGE 1024 |               |
| PR 40832467 | 09/05/04 | U Haul - PO/REMIT<br>storage unit 3313           | 3356217<br>Batch Date 08/25/04 |          | 111.42   |           | User ID BROOKAC<br>Invoice STORAGE 1211 |               |
| PR 40832468 | 09/05/04 | U Haul - PO/REMIT<br>storage unit 3315           | 3356217<br>Batch Date 08/25/04 |          | 111.42   |           | User ID BROOKAC<br>Invoice UH030104     |               |
| PR 40832469 | 09/05/04 | U Haul - PO/REMIT<br>storage unit #311           | 3356217<br>Batch Date 08/25/04 |          | 111.42   |           | User ID BROOKAC<br>Invoice UH030104A    |               |
| PR 40832522 | 09/05/04 | Dan Madison & Co Inc-REMIT<br>RENTS-REAL PROP O  | 3356217<br>Batch Date 08/25/04 |          | 2,848.93 |           | User ID BROOKAC<br>Invoice UH030104B    |               |
| PR 40832576 | 09/05/04 | Tubac Trailer Tether - REMIT<br>RENTS REAL PROP  | 3356217<br>Batch Date 08/25/04 |          | 246.45   |           | User ID BROOKAC<br>Invoice PR36         |               |
| PR 40857314 | 09/27/04 | U Haul - PO/REMIT<br>cust 99003875 AZ Amer Water | 3373541<br>Batch Date 09/28/04 |          | 120.34   |           | User ID BROOKAC<br>Invoice PR91         |               |
| PR 40857315 | 09/27/04 | U Haul - PO/REMIT<br>cust 99003875 AZ Amer Water | 3373541<br>Batch Date 09/28/04 |          | 93.59    |           | User ID BROOKAC<br>Invoice STORAGE 1024 |               |
| PR 10039895 | 09/27/04 | U Haul - PO/REMIT<br>To resolve gup pynte/paid   | 3372991<br>Batch Date 09/27/04 |          |          |           | User ID BROOKAC<br>Invoice STORAGE 1211 |               |
| PR 40857311 | 10/05/04 | U Haul - PO/REMIT<br>storage unit 3313           | 3373541<br>Batch Date 09/28/04 |          | 111.42   | 2,782.00- | User ID YILMAZNM<br>Invoice UH030104    |               |
| PR 40857312 | 10/05/04 | U Haul - PO/REMIT<br>storage unit 3315           | 3373541<br>Batch Date 09/28/04 |          | 111.42   |           | User ID BROOKAC<br>Invoice UH030104A    |               |
| PR 40857313 | 10/05/04 | U Haul - PO/REMIT<br>storage unit #311           | 3373541<br>Batch Date 09/28/04 |          | 111.42   |           | User ID BROOKAC<br>Invoice UH030104B    |               |
| PR 40857369 | 10/05/04 | Dan Madison & Co Inc-REMIT                       | 3373541                        |          | 2,848.93 |           | User ID BROOKAC<br>Invoice UH030104B    |               |

09200P Account Ledger Print

Date - 1/18/06  
Page - 5  
From Date/Per 12/13/03  
Thru Date/Per 12/10/04  
Ledger Type: AA  
Sub Ledger/Ty  
Currency Code

Account 232005.541000.16 Rents-Real Prop Oper AG

| DT Document       | Date     | Explanation                  | Batch   | Subl/MOW            | Batch Date | Debit    | Credit |
|-------------------|----------|------------------------------|---------|---------------------|------------|----------|--------|
| RENTS-REAL PROP O |          |                              |         |                     |            |          |        |
| PR 40857413       | 10/05/04 | Tubac Trailer Tether - REMIT | 3373541 | Batch Date 09/28/04 |            | 246.45   |        |
| PR 40879901       | 10/27/04 | U Haul - PO/REMIT            | 3389667 | Batch Date 10/26/04 |            | 120.34   |        |
| PR 40879902       | 10/27/04 | cust 99003875 AZ Amer Water  | 3389667 | Batch Date 10/26/04 |            | 93.59    |        |
| PR 40879898       | 11/05/04 | U Haul - PO/REMIT            | 3389667 | Batch Date 10/26/04 |            | 111.42   |        |
| PR 40879899       | 11/05/04 | U Haul - PO/REMIT            | 3389667 | Batch Date 10/26/04 |            | 111.42   |        |
| PR 40879900       | 11/05/04 | U Haul - PO/REMIT            | 3389667 | Batch Date 10/26/04 |            | 111.42   |        |
| PR 40879955       | 11/05/04 | Dan Madison & Co Inc-REMIT   | 3389667 | Batch Date 10/26/04 |            | 2,848.93 |        |
| PR 40879999       | 11/05/04 | Tubac Trailer Tether - REMIT | 3389667 | Batch Date 10/26/04 |            | 246.45   |        |
| PR 40903350       | 11/27/04 | U Haul - PO/REMIT            | 3406684 | Batch Date 11/23/04 |            | 120.34   |        |
| PR 40903351       | 11/27/04 | U Haul - PO/REMIT            | 3406684 | Batch Date 11/23/04 |            | 93.59    |        |
| PR 40903347       | 12/05/04 | U Haul - PO/REMIT            | 3406684 | Batch Date 11/23/04 |            | 111.42   |        |
| PR 40903348       | 12/05/04 | U Haul - PO/REMIT            | 3406684 | Batch Date 11/23/04 |            | 111.42   |        |
| PR 40903349       | 12/05/04 | U Haul - PO/REMIT            | 3406684 | Batch Date 11/23/04 |            | 111.42   |        |
| PR 40903397       | 12/05/04 | Dan Madison & Co Inc-REMIT   | 3406684 | Batch Date 11/23/04 |            | 2,848.93 |        |
| PR 40903441       | 12/05/04 | Tubac Trailer Tether - REMIT | 3406684 | Batch Date 11/23/04 |            | 246.45   |        |

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23,573.90  
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2,782.00

Ledger Total  
Unposted

Account 232005.541000.16 Rents-Real Prop Oper AG

| DT Document | Date  | Explanation  | Batch | Subl/WOH | Debit     | Credit    |
|-------------|-------|--------------|-------|----------|-----------|-----------|
| ..          | ..... | Year-to-Date | ..... | .....    | .....     | .....     |
| ..          | ..... | Cumulative   | ..... | .....    | 20,791.90 | 20,791.90 |

Date - 1/18/06  
 Page - 6  
 From Date/Per 12/11/03  
 Thru Date/Per 12/10/04  
 Ledger Type AA  
 Sub Ledger/Ty +  
 Currency Code P

## **EXHIBIT JMR-RB9**

Decision No. 68302, dated November 14, 2005 – property taxes

Decision No. 68176, dated September 30, 2005 – property taxes

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 Arizona Corporation Commission

3 **COMMISSIONERS**

**DOCKETED**

4 JEFF HATCH-MILLER, Chairman  
5 WILLIAM A. MUNDELL  
6 MARC SPITZER  
7 MIKE GLEASON  
8 KRISTIN K. MAYES

NOV 14 2005

DOCKETED BY

*KW*

9 **IN THE MATTER OF THE APPLICATION OF  
10 ARIZONA WATER COMPANY, AN ARIZONA  
11 CORPORATION, FOR ADJUSTMENTS TO ITS  
12 RATES AND CHARGES FOR UTILITY SERVICE  
13 FURNISHED BY ITS WESTERN GROUP AND  
14 FOR CERTAIN RELATED APPROVALS.**

DOCKET NO. W-01445A-04-0650

DECISION NO. 68302

**OPINION AND ORDER**

15 **DATES OF HEARING:**

October 15, 2004 (Oral Argument), June 10 and 16,  
2005 (Pre-Hearing Conferences), June 17, 20, 21, 22, 23  
and 24, 2005

16 **PLACE OF HEARING:**

Phoenix, Arizona

17 **ADMINISTRATIVE LAW JUDGE:**

Teena Wolfe

18 **IN ATTENDANCE:**

Kristen K. Mayen, Commissioner

19 **APPEARANCES:**

Norman D. James and Jay L. Shapiro, FENNEMORE  
CRAIG, and Robert W. Geake, Vice President and  
General Counsel, on behalf of Arizona Water Company;

Marvin S. Cohen, SACKS TIERNEY, on behalf of  
Pivotal Group, Inc.;

Joan S. Burke and Danielle D. Janitch, OSBORN  
MALEDON, on behalf of the City of Casa Grande;

Daniel Pozefsky, on behalf of the Residential Utility  
Consumer Office; and

Timothy J. Sabo and Diane M. Targovnik, Attorneys,  
Legal Division, on behalf of the Utilities Division of the  
Arizona Corporation Commission.

20 **BY THE COMMISSION:**

21 **I. INTRODUCTION**

22 On September 8, 2004, Arizona Water Company ("Arizona Water," "Company," or  
23 "Applicant") filed the above-captioned application with the Arizona Corporation Commission  
24 ("Commission") requesting a rate increase for the Company's Western Group systems. Arizona



involved, and a comparison to other cases, we find that it is reasonable to allow rate case expense of \$250,000 in this case, amortized over three years.

**E. Property Tax Expense**

The methodology used by the Company and Staff to estimate property tax expense, which is to use adjusted test year revenues and the projected revenues under the newly approved rates as inputs to the ADOR assessment formula, is the same methodology adopted in numerous prior cases over the objections of RUCO.<sup>10</sup> RUCO proposes, as it has many times before, to instead use revenues from the test year and the two years prior to the test year to calculate property tax expense (Tr. at 1003). RUCO has not demonstrated a basis for departure from our prior determinations on this issue. RUCO's argument regarding regulatory lag (RUCO Br. at 14, RUCO Reply Br. at 7-8) has been advanced and rejected (*see Rio Rico Utilities*, Decision No. 67279 (October 5, 2004)). Regulatory lag is inherent to the regulatory process, working sometimes to the benefit of ratepayers and sometimes to the benefit of shareholders. Its existence does not provide a justification for understating a utility's property tax expense. RUCO's calculation methodology, which uses only historical revenues, unfairly and unreasonably understates property tax expense, and is therefore inappropriate for ratemaking purposes. The Company and Staffs calculation for property tax expense yields the best estimate of Anzona Water's property tax expense for the period in which new rates will be in effect.

Based on the revenue requirement we adopt herein, and utilizing the methodology adopted by the Commission in our prior Decisions, an allowance will be made for property tax expense in the amount of \$768,963 on for the Western Group systems. This figure includes an estimation of the

<sup>10</sup> E.g., *Chaparral City Water*, Decision No. 68176 (September 30, 2005) (finding that RUCO's calculation methodology, which uses only historical revenues, unfairly and unreasonably understates property tax expense, and is therefore inappropriate for ratemaking purposes); *Rio Rico Utilities*, Decision No. 67279 (October 5, 2004) (finding that use of only historic revenues understates the expense level); *Arizona American Water Company*, Decision No. 67093 (June 30, 2004); *Bella Vista Water Company*, Decision No. 65350 (November 1, 2002); *Arizona Water Company*, Decision No. 64282 (December 28, 2001). RUCO has not appealed any of these Decisions.

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

COMMISSIONERS

**DOCKETED**

SEP 30 2005

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

DOCKETED BY

CR

IN THE MATTER OF THE APPLICATION OF  
CHAPARRAL CITY WATER COMPANY, AN  
ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES FOR UTILITY SERVICE  
BASED THEREON.

DOCKET NO. W-02113A-04-0616

DECISION NO. 68176

**OPINION AND ORDER**

DATE OF PRE-HEARING CONFERENCE:

May 26, 2005

DATE OF HEARING:

May 31, June 1, June 6 and June 8, 2005

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Teena Wolfe

IN ATTENDANCE:

Kristen K. Mayes, Commissioner

APPEARANCES:

Norman D. James and Jay L. Shapiro,  
FENNEMORE CRAIG, on behalf of  
Chaparral City Water Company;

Daniel Pozefsky, on behalf of the  
Residential Utility Consumer Office; and

David Ronald, Staff Attorney, Legal  
Division, on behalf of the Utilities  
Division of the Arizona Corporation  
Commission.

BY THE COMMISSION:

I. **INTRODUCTION**

A. **Procedural History**

On August 24, 2004, Chaparral City Water Company ("Chaparral City" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a determination of the current fair value of its utility plant and property and for increases in its rates and charges for utility

## 5. Purchased Power Expense

The Company proposes that purchased power expense should be adjusted to take into account recent rate increases of Salt River Project ("SRP") and Arizona Public Service Company ("APS") (Bourassa Rj. at 17). Staff agrees with this adjustment (Moe Sb. at 16). RUCO opposes this adjustment claiming that the increases in power rates are too far outside the test year (Moore Sb. at 11). The SRP and APS rate increases are known and measurable expenses. The adjustment proposed by the Company and Staff is appropriate and will be adopted, for total purchased power expense of \$510,947.

## 6. Property Tax Expense

The Arizona Department of Revenue ("ADOR") determines the value of utility property for tax purposes using a formula that is based on the utility's historical revenues. The Company and Staff propose to follow recent Commission Decisions<sup>2</sup> to use adjusted test-year revenues in the application of the ADOR formula in order to determine allowed property tax expense (Bourassa Rj. at 16; Moe Dt. at 19). RUCO continues to disagree with the Commission's use of adjusted test year revenues in the application of the ADOR formula for estimating property tax expense for ratemaking purposes, and argues that only historical revenues should be used.

In an attempt to support its argument, RUCO compared the results of its methodology, using the Company's historical revenues for the years 2001, 2002 and 2003, with the results of the Commission's methodology, using the Company's historical revenues and adjusted test year revenues, in order to predict the property taxes assessed by ADOR in 2004 (*see* Hearing Exhibit R-2), and asserts that because its methodology more accurately predicted the actual 2004 tax assessment,

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<sup>2</sup> *E.g., Rio Rico Utilities*, Decision No. 67279 (October 5, 2004) (finding that use of only historic revenues understates the expense level); *Arizona Water Company*, Decision No. 64282 (December 28, 2001) (accepting Arizona Water Company's property tax calculation, which included proposed revenues); *Bella Vista Water Company*, Decision No. 65350 (November 1, 2002) (concluding that "the most logical approach is to use the two most recent historic years' revenues, and the projected revenues under the newly approved rates"); *Arizona American Water Company*, Decision No. 67093 (June 30, 2004).

that the Commission should adopt its approach (RUCO Br. at 8-9). We do not agree. Exhibit R-1 does not, and cannot, include a comparison of results of RUCO's backward-looking methodology with results of the Commission's approach for any years beyond 2004, because the actual assessments for the years following 2004 are unknown. What is known is that any revenue increase approved in this proceeding will increase the Company's property taxes, barring the occurrence of very extraordinary circumstances. ADOR will never again use the inputs of revenues for the years 2001, 2002 and 2003, the years RUCO advocates using in this proceeding, to determine property tax levels for Chaparral City. RUCO's calculation methodology, which uses only historical revenues, unfairly and unreasonably understates property tax expense, and is therefore inappropriate for ratemaking purposes.

As we have repeatedly found, the input of known revenue increases is necessary in order to fairly estimate property tax expense for ratemaking purposes. RUCO has not demonstrated in this proceeding a basis for departure from our prior determinations on this issue.<sup>3</sup> We will therefore adopt the recommendations of the Company and Staff to follow recent Commission Decisions to use adjusted test year revenues in determining property tax expense.

The legislature recently enacted Arizona House Bill 2779, which will gradually lower the assessment ratio for Class 1 properties, such as utility property, from 25 percent to 20 percent over a ten year period, by means of a reduction in the assessment ratio of ½ percent a year. Assessment ratios are applied to full cash value to derive an assessed value on which property tax is applied (Tr. at 643). Although the new assessment ratios are known, their actual effect on the amount of property taxes assessed in the future is unknown, because unlike the assessment ratios which are set by the legislature, actual property tax rates are set by counties and other governmental entities (Tr. at 643, 45). As requested, the parties introduced schedules at the hearing that estimate the impact of HB

RUCO has not appealed prior Commission Decisions rejecting its proposed methodology.

1 2779 on the Company's property tax expense level (see Hearing Exhibits A-26, R-8, S-15). The  
2 schedules show that even if property tax rates were to remain constant, the effect of calculating HE  
3 2779's lower assessment ratios into property tax estimates would have a de minimus effect on rates in  
4 this case (see Tr. at 596; 644). No party recommended that its property tax calculation be amended.

5 Based on the revenue requirement we adopt herein, and utilizing the methodology adopted by  
6 the Commission in our prior Decisions for the reasons set forth herein, an allowance will be made for  
7 property tax expense in the amount of \$299,495.

#### 9 7. Depreciation Expense

10 The Company's application showed test year depreciation expense of \$920,648. The  
11 Company did not perform a depreciation study, but chose instead to base its depreciation rates on  
12 Staffs developed typical and customary depreciation rates (Bourassa Rb at 2, Rj. at 17). Based on its  
13 proposed plant in service amounts, the Company proposed test year adjusted depreciation expense of  
14 \$1,432,828 (Bourassa Rj. Sched. C-1, p. 1). Staff accepted the Company's use of Staffs developed  
15 typical and customary depreciation rates to calculate its proposed test year adjusted depreciation  
16 expense of \$1,365,295, based on its proposed plant in service (Moe Sb. Sched. JRM-24). RUCO  
17 disagrees with the use of Staffs developed typical and customary depreciation rates and proposes the  
18 use of a different set of depreciation rates instead, as discussed in Section XI hereinbelow. Using its  
19 proposed depreciation rates, RUCO proposed test year adjusted depreciation expense of \$1,113,339,  
20 based on its proposed plant in service amounts (Moore Dt. Sched. RLM-10, p. 1 of 2). Applying  
21 RUCO's proposed depreciation rates to the plant in service amounts approved herein would result in  
22 test year adjusted depreciation expense of approximately \$1,139,194. Consistent with our discussion  
23 of appropriate depreciation rates in Section XI hereinbelow, we adopt test year adjusted depreciation  
24 expense of \$1,432,828, based on the plant in service amounts authorized herein and using the  
25 depreciation rates proposed by the Company and Staff.

# **EXHIBIT JMR-RB10**

**Annual Incentive Plan**



*Rewarding Achievement*  
The 2004 Annual Incentive Plan



## ***The 2004 American Water Annual Incentive Plan***

The 2004 American Water Annual Incentive Plan (AIP) recognizes the opportunity and the accountability we share for achieving our goals. Your accomplishments have helped to build American Water's success to this point, and the AIP will reward you for the contribution you make to the achievement of our goals.

### ***Who Is Eligible for the 2004 AIP***

As in our previous plan, all full-time management, professional and technical employees (exempt from overtime) in American Water are eligible to participate in the 2004 AIP.

Eligible employees who join American Water before September 30 of a plan year (January 1 – December 31) are also eligible to participate in the plan on a prorated basis.

Eligible employees seconded from RWE/Thames Water will participate in the plan for the duration of their secondment.

### ***Your Award Opportunity***

Your award opportunity is based on your role. Your manager will confirm your award opportunity to you in writing.

If you are promoted during the plan year to a position with a higher award level, your opportunity will be prorated to reflect the full months at each award level. Similarly, if you are reclassified to a position with a lower AIP award level, your award opportunity will be prorated to reflect the full months at each award level.



## **What the Plan Measures**

The AIP is designed to reward participants for the performance results they and the Company attain during the plan year. There are three performance components: financial, operational and individual.

- The **Financial** component includes two new measures – Value Added and Free Cash Flow I.

Goals will be set for the business unit in which you work based on the 2004 business plan. In 2003, goals were set at your work and at the next higher organizational level; in 2004, financial goals will only be based on your business unit level, e.g., California American.

- The **Operational** component includes performance measures tied to the American Water balanced scorecard through which customer service, environmental and health & safety measures and goals, as appropriate to your role, are the key performance indicators. Those in American Water Business Center roles in Voorhees will have a mix of financial and individual measures, but no Operational component.
- The **Individual** component includes objectives (Key Performance Indicators) within the company performance management process.

| Financial Measures   | Operational Measures  | Individual Measures   |
|--|---|---|
| <ul style="list-style-type: none"><li>▪ Value Added</li><li>▪ Free Cash Flow I</li></ul> | <p>Examples include:</p> <ul style="list-style-type: none"><li>▪ Customer Service – This will make up 50% of the total operational component. This measure deals with services that directly benefit the customer.</li><li>▪ Environmental</li><li>▪ Health &amp; Safety</li></ul> <p>...as applicable to your business unit and role</p> | <ul style="list-style-type: none"><li>▪ 5 Key Performance Indicators (KPI's) to be agreed by AIP participant and their manager by the end of April.</li></ul> |

## **A Note on "Value Added" and "Free Cash Flow I"**

In the 2003 AIP Plan, the measures were Operating Result and Net Debt. For 2004, we've chosen Value Added and Free Cash Flow I as the measures for the Financial component of the AIP because they are critical gauges of our business success, and are now the standard used by RWE. Here's how we define these new terms.

- **Value Added**

- An established measure which reflects the contribution made by a business unit to the Group, relative to its cost of capital
- It is calculated using operating result and operating assets

- **Free Cash Flow I**

- An important operating figure that is also linked to net debt performance.
- It is defined as the cash flow from operating activities (after interest and tax) plus capital expenditure. It does not include the impact of financial restructuring or any impact of acquisitions or disposals.

Each measure has equal weighting and business plan performance will deliver half the relevant financial bonus element. Therefore, if only one measure is met, there could be a potential award under the plan.

Each performance measure has a straight-line payment profile, with the mid-point defining "on-target" performance, i.e. 100%. The slope of the payment profile is determined by reference to the volatility (inconsistency) associated with the measure. For Value Added, volatility is determined by potential variations in operating result; for Free Cash Flow I ("FCFI"), volatility is determined by Earnings Before Interest Tax Depreciation and Amortization (EBITDA).

In all cases, the 2004 plans have been adjusted for the capital expenditure challenge that we have set as a company.

## **How Your Award Is Weighted**

Your award opportunity is based on up to three performance components, depending on your role. You can earn part of your award for each component independent of the others. That means you can receive an award based on all, some or none of the applicable components, depending on actual performance results.

Note that the American Water Board reserves the right to determine whether incentives are payable to any individual or group of individuals. The Board may withhold all incentive payments in exceptional circumstances, such as failing to meet minimum financial goals. In any case, individuals who do not meet our performance expectations will not be eligible to receive an incentive award.

The portion of your award opportunity you can earn for each component is reflected in weightings assigned to each, based on your role in the organization, as the following chart shows.

| <b>If your position is...</b>  | <b>Your Financial component weighting is...</b> | <b>Your Operational component weighting is...</b> | <b>And your Individual component weighting is...</b> |
|--|---|---|--|
| Regional Managing Directors & their direct reports*                    | 70%   | 20%   | 10%  |
| Business Center employees (Voorhees, Procurement, IT, Belleville, SSC) | 70%   | N/A   | 30%  |
| Other eligible management and exempt employees                         | 60%   | 25%   | 15%  |

\* (Does not apply for administrative or short-term special assignment employees who report to Regional Managing Directors. Those individuals would fit under the "other eligible management and exempt employee category in the chart above.)

Note that award opportunities for all Business Center (Voorhees) roles will have a mix of Financial and Individual measures, but no Operational component.

Your manager will discuss these with you and confirm in writing the measures and weightings that apply to you.

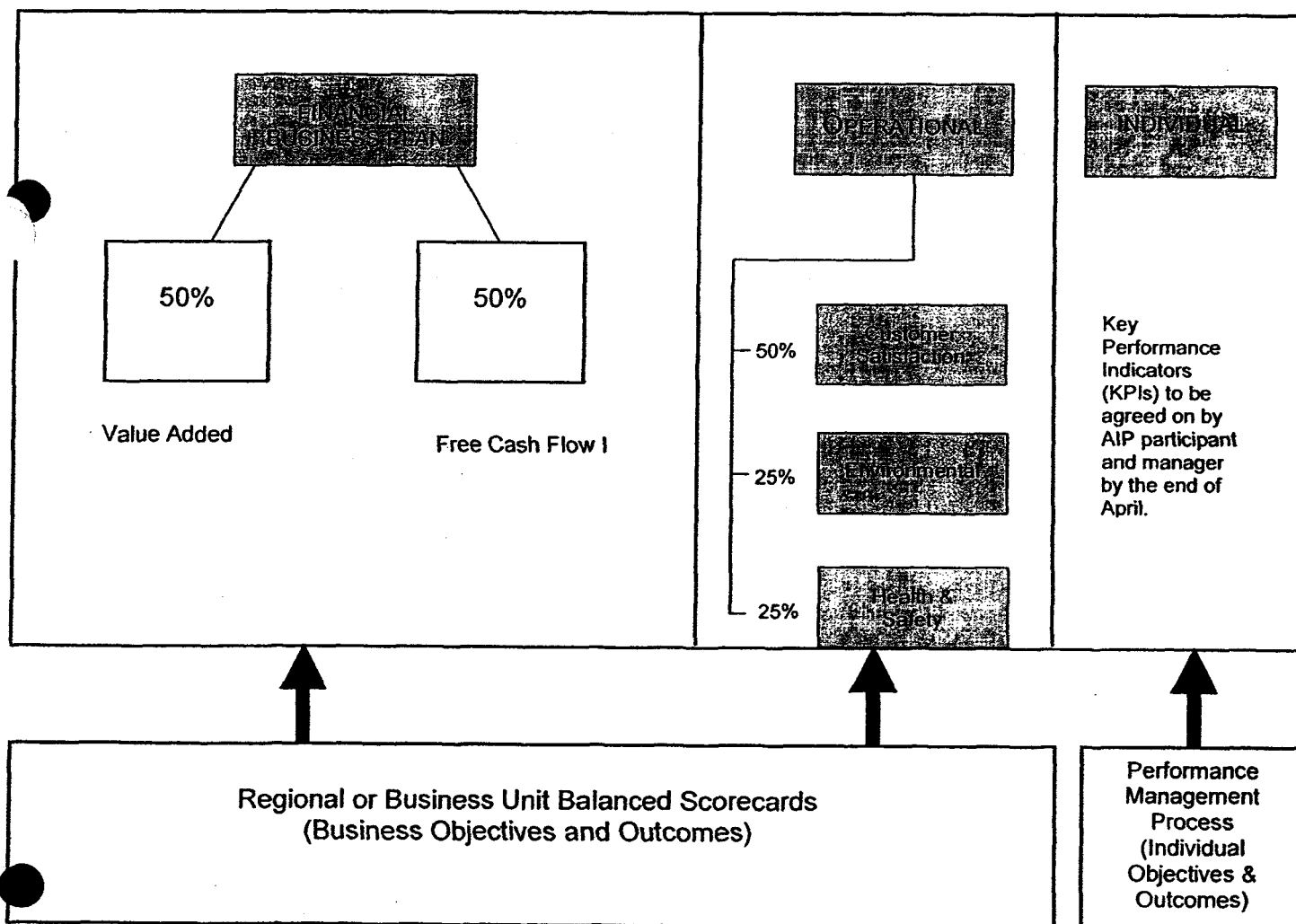
## How the Weightings Come Together

Here is an **example** of how the three performance components and their weightings come together. As you can see, the measures within each component are also weighted.

The weightings within the financial component are always based on your business unit measures of Value Added and Free Cash Flow I, to determine the portion of the financial component award opportunity that is payable.

You will receive a graph for your business unit. Each will detail the percentage of your financial award opportunity payable at a given level of combined Value Added and Free Cash Flow I achievement, ranging from a minimum level of achievement that qualifies for an award up to the maximum level. The closer actual results come to target financial performance, the higher the award for the financial component.

### EXAMPLE



## ***Performance You Can Impact***

We believe it's essential that participants be accountable for, measured on and rewarded for performance that they can directly impact or influence. That's why performance measures for the financial component are based on your local or "home" organization, i.e., the business unit where you work.

Similarly, the operational and individual measures and goals that apply to you will reflect your role. Your manager will review and discuss all applicable financial and operational measures and goals with you.

## ***Individual Performance***

The individual performance will be assessed using American Water's Performance Management and Development Review (PDR) process. This process has been revised to align with the new Balanced Scorecard. The first section of the PDR form contains a scorecard in which your individual Key Performance Indicators (KPIs) will be documented. KPIs are individual performance objectives. You will jointly identify and agree to your individual KPIs and relative weightings to be achieved during the year with your direct supervisor.

In overview, the PDR requires each individual to have 5 KPIs agreed at the beginning of 2004. The KPIs should be specific and measurable and linked to the Balanced Scorecard. Each KPI needs to be weighted (out of 100%) according to its importance relative to other KPIs. In this way excelling at your highest priority KPI, which has the heaviest weighting, will drive a bigger award. At least one of the KPIs should be linked to a personal development objective. At the beginning of 2005, a structured performance review will be conducted to determine how well individuals performed against their KPIs in 2004.

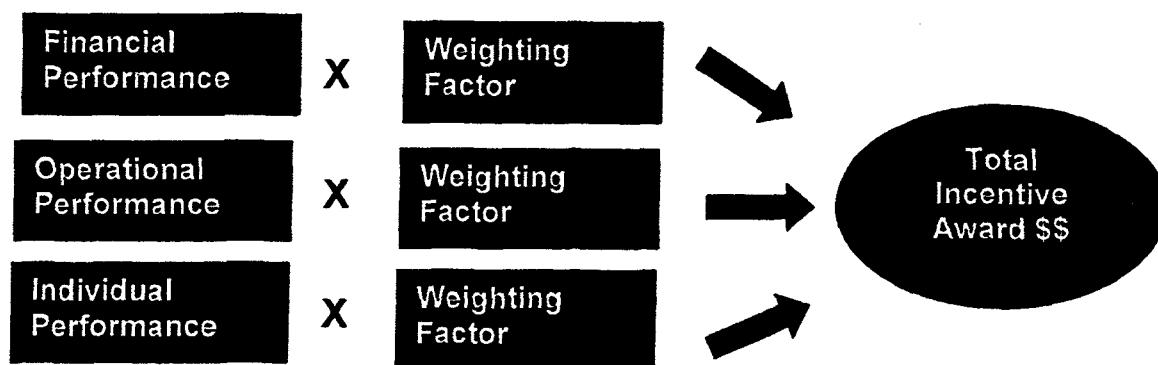
The percentage amounts paid for varying levels of achievement against each KPI should be as follows:

| <b>Performance Category</b> | <b>Percent Amounts</b> |
|-----------------------------|------------------------|
| • Target not achieved       | 0 %                    |
| • Target partially achieved | 25%                    |
| • Target largely achieved   | 75%                    |
| • Target fully achieved     | 100%                   |
| • Target exceeded           | Up to 120%             |

Percentages other than these are possible. However, percentages must be expressed in 5% increments (so for example 50% would be a valid scoring, 51% would not). When targets are exceeded a percentage of up to 120% can be defined. This should be used only in cases of exceptional and outstanding performance against KPIs. If an individual received a "too soon to rate" on their PDR they would not be eligible for an AIP award.

### ***How Your Payout Is Determined***

At the end of the year, the amount for each component is based on performance against each goal within the component and its relative weighting. Here is a simplified way to think of it.



## Target Bonuses

As part of American Water's alignment with RWE's incentive processes, the focus of the bonus communication in the future will be on "target bonus." Target bonus is defined as the bonus paid at 100% for both company and individual awards. This means business plan is achieved for the company and operational element, and the employee has met his/her objectives for the individual element.

It is theoretically possible in the design to generate a combination of company and individual performance that would allow greater bonuses than the agreed maximums. However, the Company will cap the awards at a maximum percentage. The following example will illustrate how the award is calculated.

### EXAMPLE:

Regional Employee (other than a Regional Managing Director or their direct report) with an AIP target of 17.3% and 11.5% of their base pay. Example illustrates 100% achievement on each AIP performance component and how it totals each employee's AIP Target. Since it is possible to exceed 100% of each AIP component the company has established a maximum for plan participants. The "Maximum" column illustrates the maximum award for employee 1 and employee 2. <sup>(1)</sup> Meet Business Plan + 100% of personal KPIs met. <sup>(2)</sup> Maximum is defined as exceeding Business Plan

|        | 60%<br>Financial<br>Component |                     | 25%<br>Operational<br>Component | 15%<br>Individual<br>Component |                              |                        |
|--------|-------------------------------|---------------------|---------------------------------|--------------------------------|------------------------------|------------------------|
|        | ↓                             | ↓                   | ↓                               | ↓                              |                              |                        |
|        | Value<br>Added                | Free Cash<br>Flow I | Operational                     | Individual                     | AIP<br>Target <sup>(1)</sup> | Maximum <sup>(2)</sup> |
| Emp. 1 | 5.2%                          | 5.2%                | 4.3%                            | 2.6%                           | 17.3%                        | 22.5%                  |
| Emp. 2 | 3.5%                          | 3.5%                | 2.9%                            | 1.7%                           | 11.5%                        | 15.0%                  |

<sup>(1)</sup> Meet Business Plan + 100% of personal KPIs met

<sup>(2)</sup> Maximum is defined as exceeding Business Plan

## Adjustments for uncontrollable events

The financial data included in the appendices has been prepared on the basis of the business plans agreed in 2003, using the assumptions set at that time. As in previous years, the actual results used for assessment will be amended to reflect the impact of events that are not considered to be within the control of local management. Any such amendments will require the explicit approval of the Water Division Finance Director, and where material the Board of RWE Thames Water plc, whose decision will be final. The following items are those most likely to be considered for amendment:

- The impact of movements in foreign exchange rates
- The impact of changes in intra-group recharges
- Disposal/acquisition of businesses not anticipated in the business plan, but subsequently mandated by the Board of Directors

## ***Award Payments***

To be eligible to receive an AIP award, you must be actively employed at the end of the plan year for which the award is earned. However, in case of disability, retirement, layoff or death during the plan year, a prorated award based on full months' participation in the plan may be payable. Note that no AIP awards are payable if termination is for cause.

If you become eligible to join the AIP during a plan year, any payout for that year will be prorated to reflect the number of full months you participated in the plan.

Awards are usually determined and paid in cash as soon as practical after RWE's release of financial results. Payments will be made by the end of the first quarter of the following year. Appropriate taxes will be withheld from awards.

The American Water Board reserves the right to determine whether incentives are payable to any individual or group of individuals. The Board may withhold all incentive payments in exceptional circumstances, such as failing to reach minimum financial goals. Individuals with poor performance will not be eligible to receive an incentive award.

## ***Rewarding Achievement***

Our AIP goals are challenging, but with your focus and contributions and effective teamwork, they can be achieved. Remember, your individual results do matter; our overall performance is the collective results of all AIP participants.

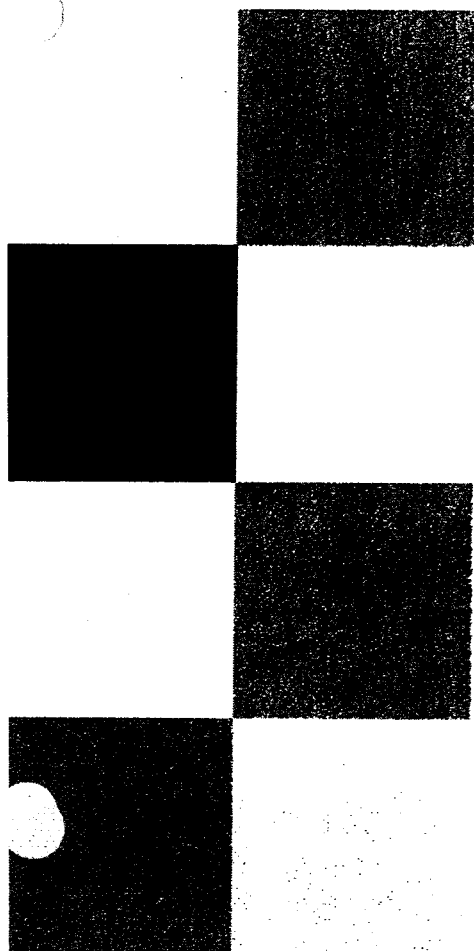
It's important that you clearly understand your goals, how we're performing against the goals, and how the AIP works so you know how you personally affect our performance. Be sure to talk to your manager or your local HR representative if you have questions.

This brochure describes the 2004 American Water Annual Incentive Plan. The Plan Administrator, whose decisions will be final and binding, will determine interpretations of the Plan. The Company reserves the right to amend, modify, or discontinue the Plan during the plan year or at any time in the future. Participation in the Plan does not convey any commitment to ongoing employment. If there are any differences between the information contained here and the Plan Document, the Plan Documents will govern.





***Rewarding Achievement***  
***The 2005 Annual Incentive Plan***



## ***The 2005 American Water Annual Incentive Plan***

The 2005 American Water Annual Incentive Plan (AIP) recognizes the opportunity and the accountability we share for achieving our goals. Your accomplishments have helped to build American Water's success to this point, and the AIP will reward you for the contribution you make to the achievement of our goals.

### ***Who Is Eligible for the 2005 AIP***

As in our previous plan, all full-time management, professional and technical employees (exempt from overtime) in American Water are eligible to participate in the 2005 AIP.

Eligible employees who join American Water before September 30 of a plan year (January 1 – December 31) are also eligible to participate in the plan on a prorated basis.

Eligible employees seconded from RWE/Thames Water will participate in the plan for the duration of their secondment. Target levels for assignees seconded from the UK/Germany are aligned with incentive opportunities for UK or German based employees to maintain the "home country terms and conditions" approach adopted for assignees.

### ***Your Award Opportunity***

Your award opportunity is based on your role. Your manager will confirm your award opportunity to you in writing. Any award you earn is based on your salary as of December 31, 2005.

If you are promoted during the plan year to a position with a higher target level, your bonus plan will be prorated to reflect the full months at each award level. Similarly, if you are reclassified to a position with a lower AIP award level, your bonus plan will be prorated to reflect the full months at each award level.

## ***What the Plan Measures***

The AIP is designed to reward participants for the performance results they and the Company attain during the plan year. There are three performance components: 'Company' (financial), 'Operational' and 'Individual'.

- The **Company** component is based on two key measures – Value Added and Free Cash Flow I. (See next page for definitions of these measures.)

You will have performance targets set at your business unit/regional level. Your AIP letter will provide you with your Company component targets.

- The **Operational** component includes performance measures tied to the American Water balanced scorecard through which customer service, environmental and health & safety measures and goals, as appropriate to your role, are the key performance indicators. If you were in American Water Business Center roles in Voorhees will have a mix of financial and individual measures, but no Operational component.
- The **Individual** component includes Performance Targets (KPIs) as agreed by you and your manager within the companywide standard performance management process.

| Financial Measures   | Operational Measures   | Individual Measures   |
|--|--|---|
| <ul style="list-style-type: none"><li>▪ Value Added</li><li>▪ Free Cash Flow I</li></ul> | <p>Examples include:</p> <ul style="list-style-type: none"><li>▪ Customer Service – This will make up 50% of the total operational component. This measure deals with services we provide that directly benefit the customer.</li><li>▪ Environmental</li><li>▪ Health &amp; Safety</li></ul> <p>...as applicable to your business unit and role</p> | <ul style="list-style-type: none"><li>▪ 5 Performance Targets (KPIs) agreed by AIP participant and their manager.</li></ul> |

## **Company (Financial)**

### **A Note on "Value Added" and "Free Cash Flow I"**

For the 2005 AIP, we will continue to use Value Added and Free Cash Flow I as the measures for the Company component of the AIP because they are critical gauges of our business success, and they are now the standard used by RWE. Here's how we define these terms.

#### **▪ Value Added**

- An established measure which reflects the contribution made by a business unit to the Group, relative to its cost of capital
- It is calculated using operating result and operating assets

#### **▪ Free Cash Flow I**

- An important operating figure that is linked to net debt performance.
- It is defined as the cash flow from operating activities (after interest and tax) plus capital expenditure. It does not include the impact of financial restructuring or any impact of acquisitions or disposals.

Each financial measure is independent of the other and has equal weighting. Business performance in relation to the business plan will deliver half the relevant financial bonus element. If only one financial measure is met, there could be a potential award under the plan.

Awards are calculated on a straight-line basis between each target and range from an award of 50% - 150% of target with no award for performance below 50%. The two elements can cross-subsidize each other and it is only the overall Company (financial) bonus which is capped at 150%.

#### **Example**

|                               |                                    |
|-------------------------------|------------------------------------|
| Free Cash Flow 1 Result       | 175%                               |
| Value Added Result            | 110%                               |
| Combined Company Bonus Result | $(175\% + 110\%) \div 2 = 142.5\%$ |

## ***How Your Award Is Weighted***

Your award opportunity is based on two or three performance components (see page 3), depending on your role. You can earn part of your award for each component independent of the others. That means you can receive an award based on all, some or none of the applicable components, depending on actual performance results.

Note that the American Water Board reserves the right to determine whether incentives are payable to any individual or group of individuals. The Board may withhold all incentive payments in exceptional circumstances, such as failing to meet minimum financial goals. In any case, individuals who do not meet their performance expectations will not be eligible to receive an incentive award.

The portion of your award opportunity you can earn for each component is reflected in weightings assigned to each, based on your role in the organization, as the following chart shows. The award has a target and a maximum opportunity.

| <b>BUSINESS CENTER<br/>2005</b> |             |                   |                               |
|---------------------------------|-------------|-------------------|-------------------------------|
| <b>Company (Financial)</b>      |             |                   | <b>Target<br/>Opportunity</b> |
| <b>VA</b>                       | <b>FCF1</b> | <b>Individual</b> |                               |
| 4.325%                          | 4.325%      | 8.65%             | 17.30%                        |
| 2.875%                          | 2.875%      | 5.75%             | 11.50%                        |
| 0.950%                          | 0.950%      | 1.90%             | 3.80%                         |

| <b>REGION<br/>2005</b>     |             |                   |                    |                               |
|----------------------------|-------------|-------------------|--------------------|-------------------------------|
| <b>Company (Financial)</b> |             |                   |                    | <b>Target<br/>Opportunity</b> |
| <b>VA</b>                  | <b>FCF1</b> | <b>Individual</b> | <b>Operational</b> |                               |
| 4.325%                     | 4.325%      | 4.325%            | 4.325%             | 17.30%                        |
| 2.875%                     | 2.875%      | 2.875%            | 2.875%             | 11.50%                        |
| 0.950%                     | 0.950%      | 0.950%            | 0.950%             | 3.80%                         |

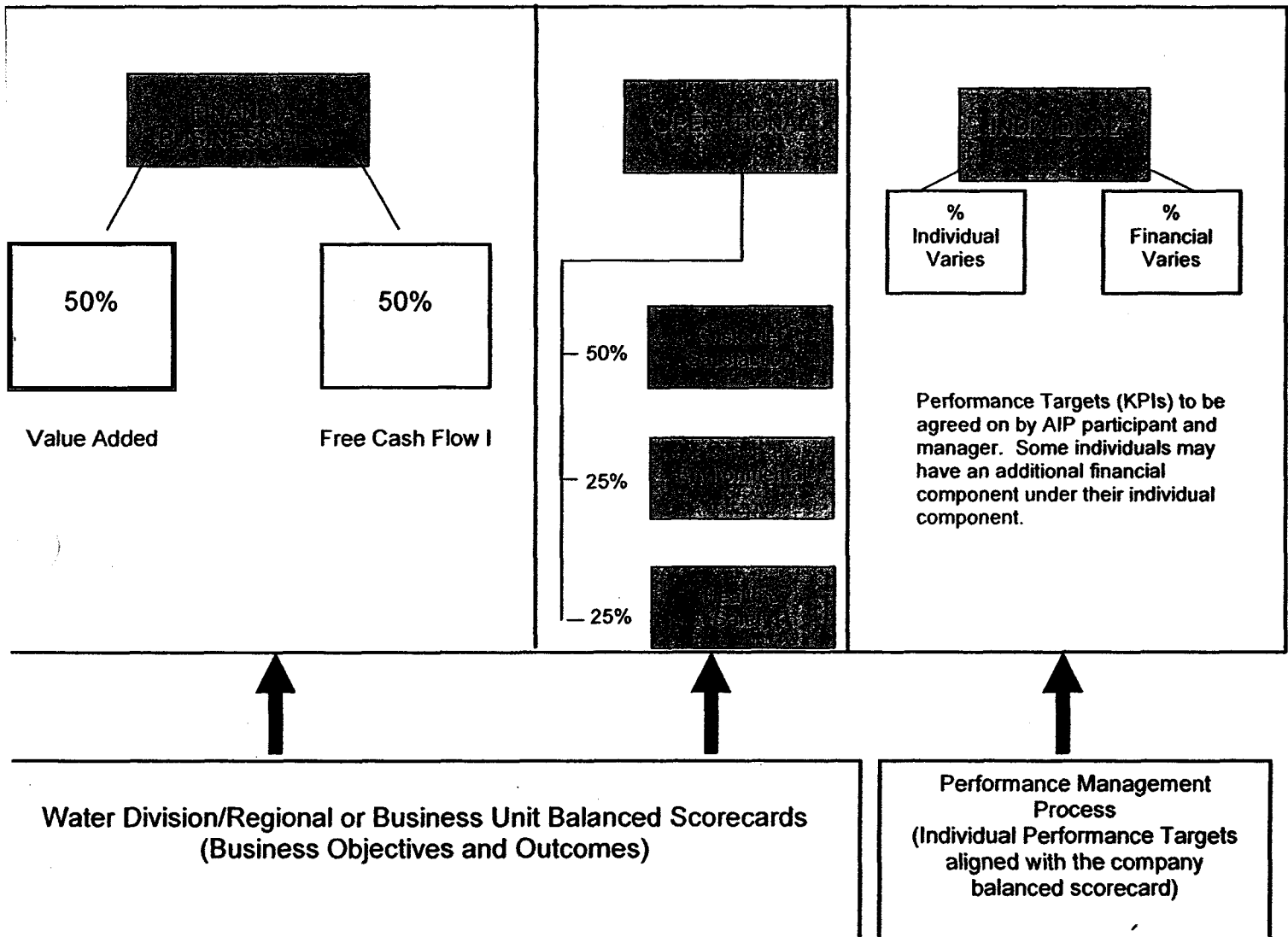
Note that award opportunities for all Business Center (Voorhees) roles will have a mix of Financial and Individual measures, but no Operational component.

Your manager will discuss these with you and confirm in writing the performance measures, weightings and target maximums that apply to you.

## How the Weightings Come Together

Here is an example of how the three performance components and their weightings come together. As you can see, the measures within each component are also weighted.

### EXAMPLE



## ***Operational***

Operational components are performance measures tied to the American Water scorecard. Customer Service makes up 50% of this component and is measured on a state by state basis. All other operational components are measured on a regional basis.

Operational components are evaluated on a range from 0 to 120%.

## ***Performance You Can Impact***

We believe it's essential that you are accountable for, measured on and rewarded for performance that you can directly impact or influence. For 2005, this means that a much larger part of your AIP is dependent on individual performance measures.

You and your manager need to work together to agree on your individual performance targets. These targets can be based on financial, customer related or operationally based and should relate back to the balanced scorecard for your business unit or region and should directly reflect your role.

## ***Individual Performance***

Individual performance will be assessed using American Water's Performance Management and Development Review (PDR) process. This process has been revised to align with the Balanced Scorecard. The first section of the PDR form contains a scorecard in which your individual Performance Targets will be documented. You will jointly identify and agree to your individual Performance Targets and relative weightings to be achieved during the year with your direct supervisor. You should have already agreed these as part of the annual performance management review so attaching the AIP component to them should be straight forward.

In overview, the PDR requires each individual to have 5 Performance Targets. The Performance Targets should be specific and measurable and aligned with the Balanced Scorecard. Each target needs to be evaluated on a range of 0 to 120% according to its importance relative to other targets. In this way excelling at your highest priority target, which has the heaviest weighting, will drive a bigger award. At least one of the targets should be linked to a personal development objective. At the beginning of 2006, a structured performance review will be conducted to determine how well you performed against your targets in 2005. **It will be the Performance Scorecard Summary Rating for these 5 Performance Targets and NOT the "overall" performance rating that will be used for AIP award purposes (see below).**

**American Water**

**Annual Performance and Development Review**

Name: \_\_\_\_\_ Location: \_\_\_\_\_  
 Position Title: \_\_\_\_\_ Appraisal Period: \_\_\_\_\_  
 Performance Rating: E-Exceeds Expectations, M-Meets Expectations, P-Progressing, D-Does Not Meet Expectations, T-Too Soon To Rate

**Double-click here to make selections.**

| BSC Quadrant | Performance Target | Target Measure | Weight % | Results/Comments | Emp. Rating | Sup. Rating |
|--------------|--------------------|----------------|----------|------------------|-------------|-------------|
| Finance      |                    |                |          |                  |             |             |
|              |                    |                |          |                  |             |             |
|              |                    |                |          |                  |             |             |
| Customer     |                    |                |          |                  |             |             |
|              |                    |                |          |                  |             |             |
|              |                    |                |          |                  |             |             |
| Process      |                    |                |          |                  |             |             |
|              |                    |                |          |                  |             |             |
|              |                    |                |          |                  |             |             |
| Employee     |                    |                |          |                  |             |             |
|              |                    |                |          |                  |             |             |
|              |                    |                |          |                  |             |             |

Scorecard Summary Rating (click one box) ☐ Exceeds ☐ Meets ☐ Progressing ☐ Does Not Meet ☐ Too Soon

## Performance Category

Each participant in the AIP plan should have 5 performance targets. An assessment should be made of performance against each target. Once evaluated, each individual performance target rating will be added and averaged to determine an overall rating.

### Example #1

| Performance Target Rating (PT)   | AIP Performance Rating    | Percentage Amount | Weighting | Subtotal |
|----------------------------------|---------------------------|-------------------|-----------|----------|
| PT#1 (Meets Expectation)         | Target fully achieved     | 100 x             | 20% =     | 20       |
| PT#2 (Progressing) *             | Target largely achieved   | 75 x              | 20% =     | 15       |
| PT#3 (Does Not Meet Expectation) | Target not achieved       | 0 x               | 20% =     | 0        |
| PT #4 (Progressing) *            | Target partially achieved | 25 x              | 20% =     | 5        |
| PT #5 (Exceeds Expectation)      | Target exceeds            | 120 x             | 20% =     | 24       |

Take each performance target percentage amount and multiply it by its assigned weight. Add the subtotal numbers = 64 (Individual Weighting Factor) 64% would be used as the INDIVIDUAL weighting factor in the AIP plan.

### Example #2

| Performance Target Rating (PT)   | AIP Performance Rating        | Percentage Amount | Weighting | Subtotal |
|----------------------------------|-------------------------------|-------------------|-----------|----------|
| PT#1 (Exceeds Expectation)       | Target exceeds fully achieved | 110 x             | 10% =     | 11       |
| PT#2 (Progressing) *             | Target largely achieved       | 85 x              | 20% =     | 17       |
| PT#3 (Does Not Meet Expectation) | Target not achieved           | 0 x               | 10% =     | 0        |
| PT #4 (Progressing) *            | Target partially achieved     | 85 x              | 20% =     | 17       |
| PT #5 (Meets Expectation)        | Target fully achieved         | 100 x             | 40% =     | 40       |

85 would be the subtotal and 85 would be used as the INDIVIDUAL weighting factor in the AIP plan.

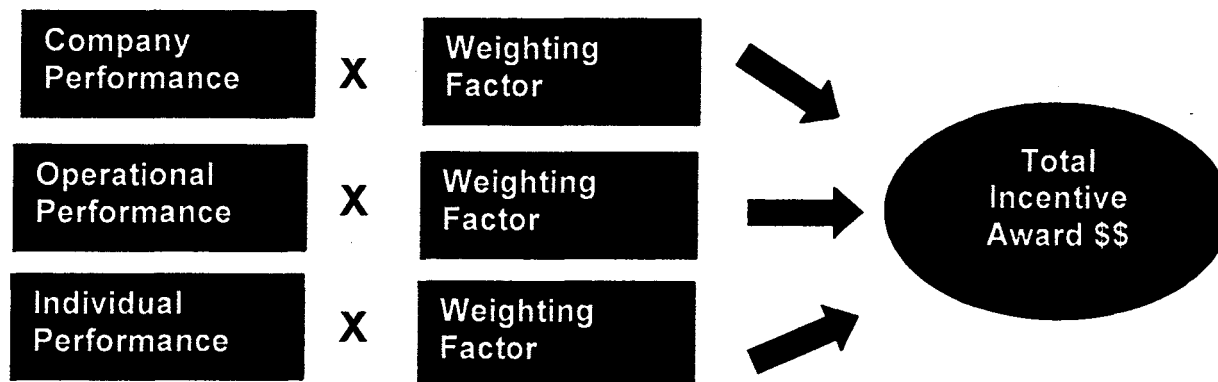
\* The system allows a % amount of 5% to 95% to be assigned to Progressing.



Percentages other than these are possible. Performance ratings can range from 0% - 120%. The degree of percentage given will be based on the supervisor's assessment of performance on the performance target. The maximum payment you can receive under the Individual component is 120%. This would only be awarded if an individual exceeded all 5 performance targets. This should be used only in cases of exceptional and outstanding performance against a target. If an individual received a "too soon to rate" on their performance review they would not be eligible for an AIP award.

### ***How Your Payout Is Determined***

At the end of the year, the amount for each component is based on performance against each goal within the component and its relative weighting. However, the maximum of the three components is capped at the maximum opportunity of each component.



***(See example on page 10)***

## Company Performance

Value Added = 98.2% of Business Plan Target

Free Cash Flow 1 = 112.8% of Business Plan Target

Company Performance =  $(112.8\% + 98.2\%) \div 2 = 105.5\% \times 5.75\% \text{ (Target)} = 6.066\%$

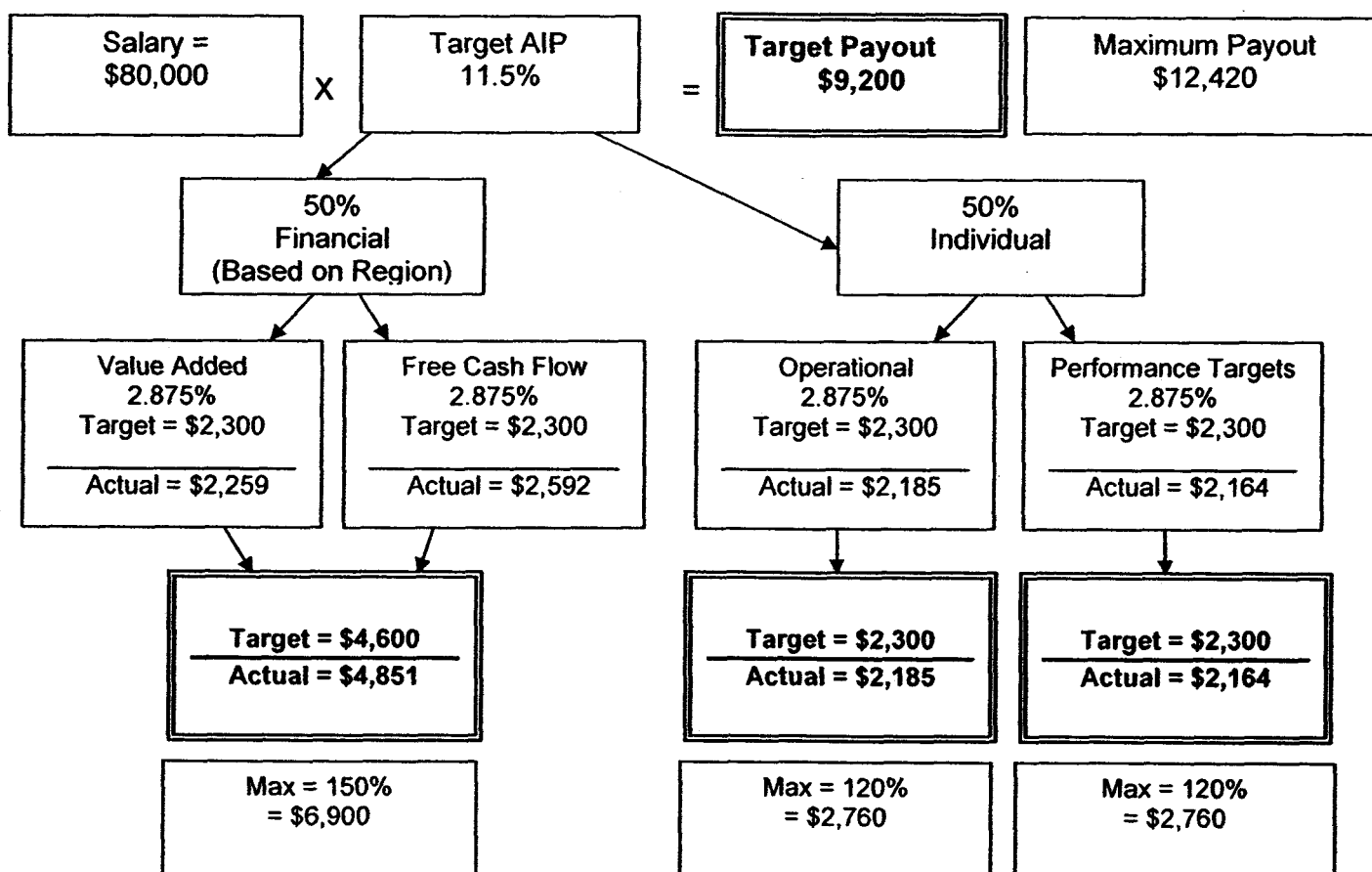
## Operational Performance

Achievement against operational targets =  $95\% \times 2.875\% \text{ (Target)} = 2.731\%$

## Individual Performance

Achievement against 5 Performance targets =  $94.1\% \times 2.875\% \text{ (Target)} = 2.705\%$

**Total AIP Payable** = 6.066% (Company) + 2.731% (Operational) + 2.705% (Individual) =  
11.50% of base salary of \$80,000 = **\$9,200**



Note: Actual results may vary due to rounding.

## ***Target Bonuses***

You will have received a letter which states your target bonus opportunity. Target bonus is defined as the bonus paid at 100% for both company and individual awards. This means business plan is achieved for the company and operational element, and the employee has met his/her objectives for the individual element.

The maximum bonus you can receive is 150% of your Company (financial) element, 120% of operational and 120% of your Individual element.

## ***Adjustments for Uncontrollable Events***

The financial data included in the appendices has been prepared on the basis of the business plans agreed in 2005, using the assumptions set at that time. As in previous years, the actual results used for assessment will be amended to reflect the impact of events that are not considered to be within the control of local management. Any such amendments will require the explicit approval of the Water Division Finance Director, and where material the Board of RWE Thames Water plc, whose decision will be final. The following items are those most likely to be considered for amendment:

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## ***Award Payments***

To be eligible to receive an AIP award, you must be actively employed at the end of the plan year for which the award is earned. However, in case of disability, retirement or death during the plan year, a prorated award based on full months' participation in the plan may be payable. Employees who resign, are terminated or laid off at any time during the plan year are not eligible.

Awards are usually determined and paid in cash as soon as possible after RWE's release of financial results. Awards are normally paid by April of the following year. Awards are subject to all federal, state and local income tax withholdings.

If you become eligible to join the AIP during a plan year, any payout for that year will be prorated to reflect the number of full months you participated in the plan.

The American Water Board reserves the right to determine whether incentives are payable to any individual or group of individuals. The Board may withhold all incentive payments in exceptional circumstances, such as failing to reach minimum financial goals. Individuals with poor performance will not be eligible to receive an incentive award.

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**EXHIBIT**

A-16  
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS PARADISE  
VALLEY DISTRICT.

DOCKET NO. WS-01303A-05-0405

**REJOINDER TESTIMONY  
OF  
JOEL M. REIKER  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
MARCH 16, 2006**

REJOINDER TESTIMONY  
OF  
JOEL M. REIKER  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
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**EXECUTIVE SUMMARY**

The direct testimony of Company witness Joel M. Reiker addresses the following issues:

Mr. Reiker responds to Staff's surrebuttal testimony regarding post test year public safety/fire flow plant additions and clarifies that the \$105,164 in additional amounts the Company proposes are commingled and indistinguishable from the projects Staff has already recommended be included in rate base. Mr. Reiker also requests that the Commission recognize the purpose of the November 2005 accounting order by including amounts related to deferred depreciation expense and post-in service AFUDC on the these same Jackrabbit/Invergordon and McDonald Main projects.

Mr. Reiker accepts Staff's recommendation to share the gain on sale of land over three years as recommended by Staff.

Mr. Reiker responds to Staff's recommendation to exclude all costs related to the Company's 401k plan, as well as motor vehicle leases, fuel, vehicle maintenance costs, lab supplies, uniforms, and numerous other legitimate items, as doing so would knowingly set rates below the cost of service – a result that is most certainly unfair.

Mr. Reiker responds to RUCO's testimony regarding property taxes and makes clear that no adjustment is necessary because the Company's and Staff's test year property tax calculation excludes all amounts related to Motorola, the Miller Road Treatment Facility, and all other non-regulated activities.

Mr. Reiker responds to RUCO's testimony regarding working cash and explains how RUCO's approach to estimating working cash understates the actual investment in rate base. Mr. Reiker also responds to RUCO's belief that because the Company is unable to pay a cash dividend, there is no cost associated with its equity – the company has a cost associated with its equity regardless of whether it recovers that cost.

**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.**

**A.** My name is Joel M. Reiker. My business address is 19820 North 7<sup>th</sup> Street, Suite 201, Phoenix, Arizona 85024-1694. My telephone number is (623) 445-2490.

**Q. ARE YOU THE SAME JOEL M. REIKER WHO PROVIDED REBUTTAL TESTIMONY IN THIS CASE ON BEHALF OF ARIZONA-AMERICAN WATER COMPANY?**

**A.** Yes, I am.

**Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY?**

**A.** I respond to the surrebuttal testimony of the Arizona Corporation Commission ("ACC") Staff and the Residential Utility Consumer Office ("RUCO").

**II. RESPONSE TO STAFF**

**A. Response to the Surrebuttal Testimony of Staff Witness Dorf**

**1. *Public Safety/Fire Flow Plant Additions***

**Q. DOES STAFF ACCEPT COMPANY RATE BASE ADJUSTMENT AAW-2, TO INCREASE RATE BASE BY \$105,164 RELATED TO ADDITIONAL AMOUNTS WHICH HAVE CLOSED TO THE JACKRABBIT/INVERGORDON AND MCDONALD MAIN PROJECTS?**

**A.** No. According to the surrebuttal testimony of Staff witness James J. Dorf at pages 3 – 4:

Company witness Joel M. Reiker did not provide an in service date for the Jackrabbit/Invergordon mains work order... Staff does not agree with the increase since both projects were placed into service not only after the Company's filing but also after Staff Engineer's inspection of the system.



1  
2 Staff witness Dorf goes on to cite the Commission decision from Paradise Valley's  
3 previous rate case in which the Commission directed the Company to limit its  
4 adjustments for post-test year plant to include only plant added within ninety days of  
5 sufficiency.

6 **Q. STAFF RECOMMENDS THAT \$3,018,867 RELATED TO THE**  
7 **JACKRABBIT/INVERGORDON AND MCDONALD MAIN PROJECTS BE**  
8 **INCLUDED AS POST TEST YEAR PLANT IN THIS CASE. ARE THESE**  
9 **ADDITIONAL AMOUNTS TOTALING \$105,164 DISTINGUISHABLE FROM**  
10 **THAT PROJECT?**

11 **A.** No, they are not. The \$105,164 represents additional amounts that closed to the  
12 Jackrabbit/Invergordon and McDonald main work orders (which Staff recommends be  
13 included in rate base) in the weeks after those projects were placed in service on October  
14 6, 2005. These projects were placed into service on the same day the Staff Engineering  
15 witness inspected the Company's facilities.

16 **Q. DOES THE COMMISSION DECISION CITED BY STAFF PRECLUDES THE**  
17 **INCLUSION OF THESE ADDITIONAL AMOUNTS (\$105.164)?**

18 **A.** No. That decision directed the Company to limit its adjustments for post-test year plant  
19 and the Company complied with that decision. Staff has recommended that public  
20 safety/fire flow improvement projects completed to date be included in rate base and  
21 these additional amounts (\$105,164) are part of the projects Staff already included.

22 **Q. HOW DOES THE COMPANY RESPOND TO STAFF'S TESTIMONY THAT IT**  
23 **"HAS NOT HAD SUFFICIENT TIME TO REVIEW AND AUDIT THE**

**JACKRABBIT/INVERGORDON MAINS.” (SEE SURREBUTTAL TESTIMONY  
OF JAMES J. DORF, P. 4 AT 21 – 22.)**

A. I must assume Staff has found these projects to be reasonable and prudent given their recommendation to include \$3,018,867 in rate base. The additional amounts (\$105,164) simply represent items such as AFUDC and invoices for contractual services that were settled and charged to the Jackrabbit/Invergordon and McDonald Main work orders subsequent to the improvements being placed into service. All supporting documentation related to these additional amounts was attached to my rebuttal testimony as Exhibit JMR-RB2.

**Q. DOES THE COMPANY STILL PROPOSE TO INCLUDE IN RATE BASE  
DEFERRED DEPRECIATION EXPENSE AND ACCRUED POST-IN SERVICE  
AFUDC ON THE JACKRABBIT/INVERGORDON AND MCDONALD MAIN  
PROJECTS?**

A. Yes. The purpose of the November 2005 accounting order (Decision No. 68303) was to allow the Company an opportunity to be made whole through the deferral of depreciation expense and accrual of post-in service AFUDC on these projects. Under Staff's and the Company's current recommendation/proposal, costs related to the Jackrabbit/Invergordon and McDonald main projects will not be recovered until at least September 2006 (based on the current time clock). Consistent with the purpose of the accounting order, we ask the Commission to include those deferred amounts in rate base at this time.

1 **Q. WHAT IS THE AMOUNT OF DEFERRED DEPRECIATION EXPENSE AND**  
2 **ACCRUED POST-IN-SERVICE AFUDC RELATED TO THE**  
3 **JACKRABBIT/INVERGORDON AND MCDONALD MAIN PROJECTS?**

4 **A.** The total amount, not including amounts related to the Nauni Valley Drive improvements  
5 discussed on page 20 of my rebuttal testimony, is \$154,532. The calculations in support  
6 of this amount are attached hereto as Exhibit JMR-RJ1.

7 **2. Working Cash Requirement**

8 **Q. DOES STAFF CONTINUE TO RECOMMEND NO WORKING CASH**  
9 **REQUIREMENT?**

10 **A.** Yes. According to the testimony, Staff has concerns regarding the Company's updated  
11 lead/lag study (see surrebuttal testimony of James J. Dorf, p. 6 at 1 – 25). Those  
12 concerns include the use of 175.5 rather than 212 lag days for property taxes, and other  
13 errors discussed in the direct testimony of RUCO witness Timothy J. Coley.

14 **Q. WILL THE COMPANY ACCEPT THE USE OF 212 LAG DAYS FOR**  
15 **PROPERTY TAXES IN ESTIMATING THE WORKING CASH REQUIREMENT**  
16 **IN THIS CASE?**

17 **A.** Yes, and as stated by Staff witness Dorf on page 6 of his surrebuttal testimony, doing so  
18 reduces the working cash requirement by approximately \$20,000. After making this  
19 adjustment the Company's revised working cash requirement is \$94,745, shown on  
20 Exhibit JMR-RJ2.

1 Q. HAS THE COMPANY ACCEPTED AND/OR CORRECTED THE OTHER  
2 ISSUES RELATED TO WORKING CASH DISCUSSED BY RUCO WITNESS  
3 COLEY IN HIS DIRECT TESTIMONY?

4 A. Yes. I will address the topic again when I respond to the surrebuttal testimony of RUCO  
5 witness Coley. As stated in the previous Q&A, the Company requests a working cash  
6 allowance of \$94,745.

7 3. *Gain on Sale of Land*

8 Q. DOES THE COMPANY ACCEPT STAFF'S RECOMMENDATION THAT  
9 ARIZONA-AMERICAN SHARE THE AFTER-TAX GAIN ON THE SALE OF  
10 LAND WITH CUSTOMERS IN THE FORM OF A MONTHLY FIXED CHARGE  
11 SURCREDIT OVER THREE YEARS INSTEAD OF FIVE YEARS?

12 A. Yes. The Company will accept Staff's recommendation regarding this issue. The detail  
13 related to Staff's and the Company's recommended/proposed surcredit is attached hereto  
14 as Exhibit JMR-RJ3.

15 Q. DOES THIS CONCLUDE YOUR RESPONSE TO THE SURREBUTTAL  
16 TESTIMONY OF STAFF WITNESS DORF?

17 A. Yes, it does.

18 B. Response to the Surrebuttal Testimony of Staff Witness Carlson

19 1. *Allocated Corporate Miscellaneous Expenses*

20 Q. WHY DOES STAFF CONTINUE TO RECOMMEND AN ADJUSTMENT TO  
21 REDUCE OPERATING EXPENSES BY \$145,648, THE ENTIRE AMOUNT OF  
22 ALLOCATED CORPORATE MISCELLANEOUS EXPENSES?

1 A. Staff witness Carlson discusses why Staff believes the Commission should remove all  
2 costs related to the Company's 401k plan, as well as costs for motor vehicle leases, fuel,  
3 vehicle maintenance, lab supplies, uniforms, and numerous other legitimate items on  
4 pages 3 – 4 of his surrebuttal testimony. The reasons provided by Staff are summarized  
5 below:

- 6 • Given the late date in this proceeding, it would be difficult for Staff to verify the  
7 Company's statement that many/all of the cited invoices provided to RUCO were  
8 actually directly allocated and were provided only because they were on the same  
9 invoices and credit card statements as a number of items that these invoices were  
10 meant to document.

11 And;

- 12 • Staff is concerned that the Company's application contained very few of the  
13 "necessary or required adjustments" to this account which would include the  
14 removal of various expenses that the Commission routinely excludes. Finally,  
15 Staff explains that by disallowing the entire amount of the account, the  
16 Commission will be "sending a signal" to the Company that it should consider the  
17 Commission's prior treatment of certain expenses when justifying that its test year  
18 expenses are reasonable and appropriate.

19 **Q. HOW DO YOU RESPOND TO THE REASONS SUMMARIZED ABOVE?**

20 A. It would not be difficult for Staff to verify the statement that virtually all 21 of the  
21 miscellaneous plant items listed on page 28 of my rebuttal testimony were actually  
22 charged directly to the operating districts. On page 29, lines 12 – 14 of my rebuttal  
3 testimony, I explained how the P-card statements list the exact business unit and account

1 to which each item was charged. My statement can be verified in a minimal amount of  
2 time by examining the first four digits to the right of each charge shown on the P-card  
3 statements.<sup>1</sup> Alternatively, one can search the Arizona corporate and Central Division  
4 corporate account ledgers (using the spreadsheet's search function) for the amounts in  
5 question to verify that they were not charged to those accounts.

6 With regard to the second reason summarized above; I would note that the original basis  
7 provided for Staff's adjustment was what Staff believed to be a lack of proper allocation  
8 of many of the charges in this account. (See direct testimony of Staff witness Alexander  
9 Ibhade Igwe, pp. 12 -14.) Staff witness Carlson now cites a lack of "necessary and  
10 required adjustments", such as the removal of all lobbying portions of annual dues for  
11 various organizations, as a basis for Staff's removal of these charges. We are currently  
12 eight months into this proceeding and up to this point, the Company has not been made  
13 aware of any operating expense adjustments that are "required" as a prerequisite to Staff  
14 conducting its audit. Regardless of the fact that we have accepted many of the individual  
15 adjustments RUCO has made to this account (including the elimination of the lobbying  
16 portions of dues), it doesn't seem fair that a company should be prohibited from seeking  
17 recovery of any item that the Commission routinely excludes.<sup>2</sup> I need only to point to the  
18 Arizona utility that continually seeks recovery of flotation costs, or the company that  
19 inflates its cost-of-equity estimates to reflect non-market related risks. In each case, Staff  
20 undertakes an extensive and time consuming analysis to confirm the appropriateness of

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<sup>1</sup> This information appears as a number beginning with 23 to the right of the amount of the charge. 2301 and 2320 are the Arizona corporate and Central Division corporate business units.

<sup>2</sup> I note that the Company and RUCO have compromised on many of the specific charges to this account that RUCO originally adjusted on grounds of legitimacy, and the remaining charges in dispute are limited to relatively minor amounts related to ice and grounds keeping.

1 the company's request. With respect to fairness the instant case is no different. The fact  
2 that the account in question contains legitimate utility operating expenses is not in  
3 dispute, and the Company's "failure" to anticipate what Staff believes to be the  
4 disposition of many of the charges in this account should not be reason to knowingly set  
5 rates below the cost of service by eliminating the entire amount.

6 **Q. HAS THE COMPANY RESPONDED TO THE DATA REQUEST MENTIONED**  
7 **ON PAGE 4, LINES 21 – 22 OF STAFF WITNESS CARLSON'S TESTIMONY?**

8 A. The data request asks for copies of supporting documentation for over 4,500 account  
9 entries. Depending on the type of transaction, supporting documentation is either imaged  
10 within the Company's accounting system, or held in hard copy at either the Company's  
11 Phoenix or Sun City Office. Preparing hard copies of imaged supporting documentation  
12 for each entry in this account would be a monumental task. For this reason, Staff and  
13 RUCO have either conducted on-site audits, or have requested copies of supporting  
14 documentation for representative samples of transactions. In response to Staff's data  
15 request, we have provided supporting documentation for all transactions in excess of  
16 \$1,000 and have invited Staff to return to our office at their convenience to substantiate  
17 all other transactions.

18 **Q. DOES THIS CONCLUDE YOUR RESPONSE TO THE SURREBUTTAL**  
19 **TESTIMONY OF STAFF WITNESS CARLSON?**

20 A Yes, it does.

1           **II.     RESPONSES TO RUCO**

2                   **A.     Response to the Surrebuttal Testimony of RUCO Witness Moore**

3                           **1.     *Property Taxes***

4   **Q.     HAVE YOU REVIEWED RUCO'S TESTIMONY REGARDING PROPERTY**  
5       **TAXES RELATED TO THE MILLER ROAD TREATMENT FACILITY**  
6       **("MRTF")? (SURREBUTTAL TESTIMONY OF RODNEY L. MOORE. PP. 15 –**  
7       **17.)**

8   **A.     Yes, and based on RUCO's surrebuttal testimony, it is clear that additional explanation is**  
9       **necessary in order to provide a clear understanding of this issue.**

10 **Q.     ON PAGE 15, LINES 11 – 15 OF RUCO WITNESS MOORE'S SURREBUTTAL**  
11 **TESTIMONY, HE CLAIMS THAT YOU HAVE TESTIFIED THAT**  
12 **MOTOROLA'S TEST-YEAR PROPERTY TAXES WERE \$14,000 AND THIS IS**  
13 **REFLECTED IN PARADISE VALLEY'S ADJUSTED PROPERTY TAX**  
14 **EXPENSE OF \$213,241. IS THIS ACCURATE?**

15 **A.     No, that is not an accurate summary of my testimony. In fact, the opposite is true – the**  
16 **Company's and Staff's test-year property tax calculation does not include any amount**  
17 **related to Motorola, the MRTF, or any other non-regulated activity. It would be**  
18 **inappropriate to reduce test year property taxes for amounts that are not there to begin**  
19 **with, as RUCO proposes.**

20 **Q.     WHAT DOES THE \$14,000 DISCUSSED BY RUCO REPRESENT?**

21 **A.     The \$14,000 represents the best estimate of the property taxes that would be attributable**  
22 **to the MRTF using ADOR's methodology if the MRTF were individually assessed. This**



1 amount is not included in the Company's or Staff's test year property taxes and that is  
2 why no adjustment is necessary.

3 **Q. WHAT DOES THE \$56,844 DISCUSSED BY RUCO REPRESENT?**

4 A. The \$56,844 is what the Company has accrued for the MRTF and, on its face, is clearly  
5 not a reasonable estimate of property taxes.<sup>3</sup> My understanding is that the accrual was set  
6 up by American Water's tax department several years ago and for the reasons stated on  
7 page 29, lines 13 – 20 of my rebuttal testimony, it has never been trued-up or otherwise  
8 compared to what the property taxes related to the MRTF would actually be. In light of  
9 RUCO's testimony on this issue, the Company is currently working to have the amount  
10 of this accrual significantly reduced. The company has never been reimbursed by  
11 Motorola for any property taxes and may not be reimbursed in the future.

12 **Q. DOES THIS CONCLUDE YOUR RESPONSE TO THE SURREBUTTAL**  
13 **TESTIMONY OF RUCO WITNESS MOORE?**

14 A. Yes, it does.

15 **B. Response to the Surrebuttal Testimony of RUCO Witness Coley**

16 **1. *Working Capital***

17 **Q. WILL THE COMPANY ACCEPT THE USE OF 212 PROPERTY TAX LAG**  
18 **DAYS IN THE COMPUTATION OF WORKING CASH?**

19 A. Yes. As previously explained in my response to Staff, the Company will accept 212  
20 days.

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<sup>3</sup> The \$56,844 implies a 34% property tax rate compared to the actual 8.24%.

1 **Q. HOW DOES THE COMPANY RESPOND TO RUCO'S DISCUSSION OF WHY**  
2 **IT BELIEVES DEPRECIATION EXPENSE SHOULD NOT BE CONSIDERED IN**  
3 **A LEAD/LAG STUDY?**

4 **A.** RUCO witness Coley testifies on page 10, lines 4 – 8 of his surrebuttal testimony, that  
5 depreciation is non-cash account and therefore should not be included in the calculation  
6 of working cash. He goes on to cite a previous rate decision for Paradise Valley in which  
7 the Commission agreed with that basis. However, the fact that depreciation is a non-cash  
8 account is irrelevant to the time-value of the funds due and payable to investors at the  
9 time depreciation is simultaneously recorded as an expense and deducted from rate base.  
10 Absent some sort of adjustment, investors will *never* be compensated for this portion of  
11 their investment. If the Commission does not wish to recognize depreciation expense in  
12 the working cash requirement, then the test year balance of accumulated depreciation  
13 should be adjusted to reflect the actual investment in rate base.

14 **Q. HOW DOES THE COMPANY RESPOND TO RUCO'S TESTIMONY THAT**  
15 **BECAUSE ARIZONA-AMERICAN WATER HAS NOT PAID A CASH**  
16 **DIVIDEND SINCE 2003, IT DOES NOT HAVE A COST ASSOCIATED WITH**  
17 **ITS EQUITY, AND IT IS THEREFORE A NON-CASH EXPENSE AND SHOULD**  
18 **NOT BE RECOGNIZED IN THE WORKING CASH REQUIREMENT?**  
19 **(SURREBUTTAL TESTIMONY OF TIMOTHY J. COLEY. P. 11 AT 8 – 20.)**

20 **A.** The Company has a cost associated with equity regardless of whether it recovers that cost  
21 and is able to pay a dividend – RUCO even estimates the cost of Arizona-American  
22 Water's equity. The regular payment of a cash dividend would simply create a payment  
23 lag associated with a portion of the equity cost, and a net working capital requirement

1 would likely remain. Further, compensation related to the cost of equity is due the  
2 Company when service is rendered. Absent recognition in the working cash requirement,  
3 the Company will never be compensated for the implicit additional investment related to  
4 the time it must wait to be compensated for that cost.

5 **Q. DOES THIS CONCLUDE YOUR RESPONSE TO THE SURREBUTTAL**  
6 **TESTIMONY OF RUCO WITNESS COLEY?**

7 **A.** Yes, it does.

8 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 **A.** Yes, it does.

Page 1 of 1

Accumulated Depreciation Adjustment

PARADISE VALLEY

| Line<br>No. |                                       | Test Year<br>Adjusted<br>Results | Revenue<br>Lag<br>Days <sup>3</sup> | Expense<br>Lag<br>Days | Net<br>Lag<br>Days | Lead/<br>Lag<br>Factor | Cash<br>Working<br>Capital<br>Required |
|-------------|---------------------------------------|----------------------------------|-------------------------------------|------------------------|--------------------|------------------------|--|
| 1           | OPERATING EXPENSES                    |                                  |                                     |                        |                    |                        |  |
| 2           | Labor                                 | \$ 527,708                       | 38.3000                             | 12.0000                | 26.3000            | 0.0721                 | \$ 38,024                              |
| 3           | Fuel & Power                          | 827,908                          | 38.3000                             | 38.1148                | 0.1852             | 0.0005                 | 420                                    |
| 4           | Chemicals                             | 16,499                           | 38.3000                             | 30.0000                | 8.3000             | 0.0227                 | 375                                    |
| 5           | Management Fees                       | 554,302                          | 38.3000                             | (3.8800)               | 42.1800            | 0.1156                 | 64,056                                 |
| 6           | Group Insurance                       | 117,720                          | 38.3000                             | (4.6445)               | 42.9445            | 0.1177                 | 13,850                                 |
| 7           | Pensions                              | 26,625                           | 38.3000                             | 45.0000                | (6.7000)           | (0.0184)               | (489)                                  |
| 8           | Insurance Other Than Group            | 48,923                           | 38.3000                             | 45.0000                | (6.7000)           | (0.0184)               | (898)                                  |
| 10          | Rents                                 | 64,878                           | 38.3000                             | (10.6818)              | 48.9818            | 0.1342                 | 8,706                                  |
| 11          | Depreciation & Amortization           | 799,234                          | 38.3000                             | -                      | 38.3000            | 0.1049                 | 83,865                                 |
| 12          | Other Operating Expenses <sup>1</sup> | 655,707                          | 38.3000                             | 30.0000                | 8.3000             | 0.0227                 | 14,911                                 |
| 13          | TAXES                                 |                                  |                                     |                        |                    |                        |  |
| 14          | Taxes Other than Income               | 42,405                           | 38.3000                             | 26.3188                | 11.9812            | 0.0328                 | 1,392                                  |
| 15          | Property Taxes <sup>5</sup>           | 216,214                          | 38.3000                             | 212.0000               | (173.7000)         | (0.4759)               | (102,894)                              |
| 16          | Income Tax <sup>2</sup>               | 420,233                          | 38.3000                             | 37.0000                | 1.3000             | 0.0036                 | 1,497                                  |
| 17          | RETURN                                |                                  |                                     |                        |                    |                        |  |
| 18          | Interest on Debt <sup>4</sup>         | 520,071                          | 38.3000                             | 107.2300               | (68.9300)          | (0.1888)               | (98,215)                               |
| 19          | Return on Equity                      | 668,485                          | 38.3000                             | -                      | 38.3000            | 0.1049                 | 70,145                                 |
| 20          |                                       |                                  |                                     |                        |                    |                        |  |
| 21          |                                       |                                  |                                     |                        |                    |                        |  |
| 22          |                                       |                                  |                                     |                        |                    |                        |  |
| 23          |                                       |                                  |                                     |                        |                    |                        |  |
| 24          | WORKING CASH REQUIREMENT              |                                  |                                     |                        |                    |                        | <u>\$ 94,745</u>                       |

<sup>1</sup>All other Operating Expenses are assumed to be paid by the 15th of the month following the receipt of goods and services.

<sup>2</sup>As proposed rates.

<sup>3</sup>Per direct testimony of RUCO witness Coley.

<sup>4</sup>Expense lag days per direct testimony of RUCO witness Coley.

<sup>5</sup>Property tax lag days per Dorf surrebuttal testimony at p. 6.

Line  
No.

|   |  |              |
|---|--|--------------|
| 1 | Total amount to be Refunded to Customers | \$240,840.42 |
| 2 | Years to be recovered over               | 3            |
| 3 | Annual Recovery                          | \$80,280     |
| 4 | Monthly Recovery                         | \$6,690      |

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MONTHLY MINIMUM SURCHARGE CALCULATION

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|                   | Monthly | Minimum   | 2004           | Equivalent | Meter   |              |
|-------------------|---------|-----------|----------------|------------|---------|--------------|
| Meter Size        | Minimum | Multiples | Avg. Customers | Meters     | Monthly | Annual Total |
| 5/8 - inch        |         | 1.0       | 2390           | 2,390      | 0.90    | \$ 25,812    |
| 3/4 - inch        |         | 1.0       | 17             | 17         | 0.90    | \$ 184       |
| 1 - inch          |         | 1.7       | 1957           | 3,327      | 1.53    | \$ 35,931    |
| 1.5 - inch        |         | 3.3       | -              | -          | 2.97    | \$ -         |
| 2 - inch          |         | 5.2       | 267            | 1,388      | 4.68    | \$ 14,995    |
| 3 - inch          |         | 10.0      | 12             | 120        | 9.00    | \$ 1,296     |
| 4 - inch          |         | 16.6      | 1              | 17         | 14.94   | \$ 179       |
| 6 - inch          |         | 33.0      | 5              | 165        | 29.70   | \$ 1,782     |
| Total             |         |           | 4,649          | 7,423.84   |         |              |
| Times 12 Months   |         |           |                | 89,086.12  |         |              |
| Minimum Surcharge |         |           |                |            | \$ 0.90 | \$ 80,178    |

|            |         |
|------------|---------|
| 5/8 - inch | \$0.90  |
| 3/4 - inch | \$0.90  |
| 1 - inch   | \$1.53  |
| 1.5 - inch | \$2.97  |
| 2 - inch   | \$4.68  |
| 3 - inch   | \$9.00  |
| 4 - inch   | \$14.94 |
| 6 - inch   | \$29.70 |

BEFORE THE ARIZONA CORPORATION COMMISSION

EXHIBIT

A-17  
admitted

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS PARADISE  
VALLEY DISTRICT

DOCKET NO. W-01303A-05-0405

REBUTTAL TESTIMONY  
OF  
THOMAS M. BRODERICK  
ON BEHALF OF  
ARIZONA AMERICAN WATER COMPANY  
FEBRUARY 13, 2006

**REBUTTAL TESTIMONY  
OF  
THOMAS M. BRODERICK  
ON BEHALF OF  
ARIZONA AMERICAN WATER COMPANY  
FEBRUARY 13, 2006**

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**EXECUTIVE SUMMARY**

Thomas M. Broderick testifies that:

The appropriate amount of rate case expense to recover is \$301,832 over three years.

The new Paradise Valley Country Club contract application should be joined into this application as suggested by Commission Staff.

An identical second tier should be added to the Turf Irrigation rate starting at 25,000,000 gallons per month, which would then be subject to the high-block surcharge of \$2.15 per 1000 gallons.

The Company accepts Staff's recommendation to file its next rate case by September 30, 2008, as a requirement of the ACRM in Paradise Valley.

Certain expense adjustments proposed by RUCO to allocated corporate expenses are inappropriate.

The Company is no longer requesting an interim Accounting Order for its arsenic removal facility in Paradise Valley district since that facility will be in service after permanent rates are effective in this case.

The Company will file schedules in support of two Public Safety surcharge step increases including an earnings test.

The Company strongly urges the Commission not to impose a new rate case filing moratorium as this would have disastrous consequences for the Company. The Company's previous three-year rate case filing moratorium expired on January 11, 2006. To improve the Company's equity ratio, the Company must file new rate cases to recover new investments and increased costs. Absent these required filings, the Company would be unable to maintain, let alone improve its existing equity ratio. Further, Mr. Rogers' recommendation would be contrary to the minimum equity agreement negotiated with Staff just three years ago and approved by the Commission as part of the RWE acquisition conditions (Decision No. 65453, December 12, 2003). It would also contravene Commission-mandated rate-filing deadlines in previous ACRM rate cases. Nor would the recommendation provide any economic benefit to customers. Finally, even though other utilities in Arizona have equity ratios below 40%, the Commission has never sanctioned such draconian measures to help the utility to improve its equity ratio.

Even if the Company's requested revenues in this docket are fully granted, it will not have the opportunity to earn its authorized return on equity during the period rates are in effect.

**I. INTRODUCTION AND QUALIFICATIONS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.**

A. My name is Thomas M. Broderick. My business address is 19820 N. 7<sup>th</sup> Street, Suite 201, Phoenix, Arizona 85024 and my telephone number is 623-445-2420.

**Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS DOCKET?**

A. No. However, I am now sponsoring portions of the testimony of David P. Stephenson and Stacey A. Fulter and the entire testimony of Ralph Jordan. No party to this proceeding took issue with any of Ralph Jordan's revenue adjustments.

**Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

A. I have included an Executive Summary at the beginning of my rebuttal testimony.

**Q. HOW IS YOUR TESTIMONY ORGANIZED?**

A. I first respond to issues raised in Commission Staff's testimony. I next respond to issues raised in RUCO's direct testimony.

**II. RESPONSE TO COMMISSION STAFF**

**A. RATE CASE EXPENSE**

**Q. HAVE YOU REVIEWED THE TESTIMONY OF COMMISSION STAFF WITNESS MR. IGWE CONCERNING RATE CASE EXPENSES?**

1 A. Yes. Mr. Igwe recommends a total of \$208,700 in rate case expenses amortized over  
2 three years. The Company recommends \$301,832, but agrees with a three year  
3 amortization period. The Company originally requested \$282,841 and I subsequently  
4 provided in discovery an update of \$301,832. Exhibit TMB-1 displays each component  
5 of this estimate. As correctly noted by Mr. Igwe, the Company now seeks recovery of  
6 the entire costs for cost of capital testimony.

7 I became responsible for the Arizona Rates function after the filing of this case and I  
8 cannot support and, therefore, modify Company witness Stacey Fulter's original proposal  
9 to share 50/50 the costs for external consultant's cost of capital testimony on the basis  
10 that cost of capital testimony, if accepted, partially benefits investors. In this case, just  
11 the opposite is true – it supports our customers' health with new arsenic removal facilities  
12 and improves safety with improved fire flows. The Company has indicated its cost of  
13 capital for undertaking these programs for the benefit of our customers. While we have  
14 no choice but to comply with the arsenic standard, the Company does have discretion  
15 regarding continuing the fire flow project. Obtaining authorization for our cost of capital  
16 is critical in the Company continuing this project on behalf of customers.

17 The Mohave rate cases filed January 13, 2006, do not offer to share costs for cost of  
18 capital expertise from the Brattle Group. The Company must presently rely upon the best  
19 available expertise in light of the low 9% return on equity granted in our most recent  
20 Arizona rate cases, which placed Arizona American Water last among all the state  
21 affiliates of American Water. We did not know Staff's recommendation in this Paradise  
22 Valley case when we filed the Mohave rate cases and we will not know the outcome of  
23 the Paradise Valley case when we file four more rate cases in May 2006.

1 **Q. DID YOU REDUCE RATE CASE EXPENSE FOR SOME CATEGORIES IN**  
2 **YOUR REVISED ESTIMATE OF \$301,832?**

3 A. Yes. Our original rate case expense estimate included a very modest \$36,000 for outside  
4 legal expenses, which has been removed as the Arizona Rates function is now entirely  
5 supported by Mr. Marks, our in-house legal counsel, even though we will have  
6 miscellaneous legal costs for such items as hearing transcripts. I also reduced other  
7 category estimates as noted by Mr. Igwe to further reduce costs. Thus, some of our  
8 estimated rate-case expenses have risen, while others have fallen. Certainly, the  
9 Commission should accept both types of revisions. It would be unfair to accept only  
10 reduced expenses, while ignoring increased expenses.

11 **Q. ARE YOUR PROPOSED RATE CASE EXPENSES COMPARABLE WITH RATE**  
12 **CASE EXPENSES APPROVED IN RECENT WATER CASES?**

13 A. Yes. In the recent Chaparral City Water rate case, the Commission approved \$285,000 in  
14 rate case expense and it approved \$250,000 in the most recent Arizona Water Western  
15 Division rate case.

16 **B. PARADISE VALLEY COUNTRY CLUB CONTRACT**

17 **Q. THE COMPANY SEPARATELY FILED ON DECEMBER 22, 2005, A NEW**  
18 **SPECIAL CONTRACT WITH PARADISE VALLEY COUNTRY CLUB. WHAT**  
19 **IS THE RELEVANCE OF THAT NEW CONTRACT TO THIS CASE?**

20 A. If approved, the contract is effective upon implementation of new permanent rates in  
21 Paradise Valley. The parties agreed to charge the Paradise Valley Country Club the turf  
22 tariff, including all surcharges, reduced by a 15% discount. Hence, both the rate design  
23 of the turf tariff and the effective date of new rates in this case are relevant to this  
24 contract.

1 **Q. HAS COMMISSION STAFF ISSUED ITS REPORT CONCERNING THE NEW**  
2 **CONTRACT?**

3 A. Yes, on January 31, 2006, Commission Staff issued its report and recommends approval  
4 of the new contract without modification. Commission Staff indicated a willingness to  
5 bring that application into this rate case and the Company believes this is a most  
6 appropriate action. Based on that assumption, the Company has included additional  
7 annual revenue of \$8,515 in Company Income Statement Adjustment AAW-17.

8 **Q. AS A RESULT OF THE NEW CONTRACT, IS THE COMPANY PROPOSING**  
9 **ANY CHANGES TO THE RATE DESIGN OF THE TURF TARIFF?**

10 A. Yes. The Company recommends the turf tariff have a second tier for monthly  
11 consumption in excess of 25,000,000 gallons. However, the base rate charge for this  
12 second tier would be equal to the first tier. Hence, the purpose of creating this second tier  
13 is solely to make it subject to the high block surcharge of \$2.15 per 1000 gallons. This is  
14 appropriate for two reasons. First, Commission Staff is recommending that revenues  
15 generated by the high block surcharge be applied as a contribution to fire flow and the  
16 Company told the Country Club that it will support a share of the cost of this project.  
17 Second, the second tier break at 25,000,000 gallons is calculated such that if the Country  
18 Club remains below that amount in the summer months, it will very likely remain within  
19 the limit set by the Arizona Department of Water Resources for the Country Club. So,  
20 this new rate design achieves funding for fire flow or conservation or both.

21 The other two existing customers on the turf tariff will not be impacted by this rate design  
22 change insofar as their monthly consumption is far below the 25,000,000 gallon  
23 threshold.

**III. RESPONSE TO RUCO**

**A. RATE CASE EXPENSE**

**Q. HAVE YOU REVIEWED THE TESTIMONY OF RUCO WITNESS MOORE CONCERNING RATE CASE EXPENSES?**

A. Yes. Mr. Moore recommends operating income adjustment No. 4 to reduce rate case expense to \$73,179 amortized over five years. The Company disagrees with both the amount and the amortization period. The Company recommends \$301,832 in rate case expense amortized over three years.

**Q. WHAT REASON DOES MR. MOORE GIVE FOR A FIVE YEAR AMORIZATION PERIOD?**

A. He cites the Company's original proposal to file its next rate case not later than May 2010. However, in his rebuttal testimony, Company witness Paul Townsley accepts Commission Staff's requirement (Mr. Igwe, page 23, line 2) to file the next Paradise Valley rate case, not later than September 30, 2008, as a requirement of the ACRM. Therefore, there is no longer any arguable basis for Mr. Moore's five-year amortization as the rates set in this proceeding will be in effect for 3 years (e.g., August 2006 through August 2009).

**Q. WHAT ARE MR. MOORE'S REASONS FOR RECOMMENDING ONLY \$73,179 IN RATE CASE EXPENSE?**

A. He examined rate case expenses approved in previous Paradise Valley rate cases, calculates per district costs for recent Arizona Water rate cases, selects a recent Southwest Gas case, and declares the case is not "complex" as there are no contentious issues.

1 **Q. IS THIS CASE COMPLEX?**

2 A. Absolutely. This case addresses ratemaking for over \$35 million in new investment in  
3 arsenic and fire flow improvements infrastructure – a tripling of the prior rate base.  
4 RUCO has recommended a denial of the Public Safety surcharge, has taken no position  
5 on treatment of post test-year fire-flow plant now in service, and would require illegal  
6 contributions from the Town of Paradise Valley. RUCO also challenges the prudence of  
7 the Company's arsenic investments and indicates it will seek delays in processing the  
8 ACRM – a facility for which monthly carrying costs will exceed \$150,000. The  
9 Company has not earned its authorized return on equity since 1991 - the period for which  
10 it has records handy - and yet RUCO recommends so many expense adjustments in this  
11 case that it recommends a large rate decrease.

12 **Q. HOW DO YOU RESPOND TO THE EXAMPLES RUCO SELECTED?**

13 A. Rate case expense for Arizona Water is somewhat relevant, but not expressed on a per  
14 district basis. Most rate case expenses do not vary with the number of districts. The  
15 same number of schedules are required and certain subjects (e.g. cost of capital, rate  
16 design) will require expert testimony. Chaparral City's recent rate case resulted in  
17 approval of \$285,000 in rate case expense. The selection of a Southwest Gas case is  
18 clearly a biased non-representative selection. RUCO's reference to ancient Paradise  
19 Valley rate cases is irrelevant given the magnitude and complexity of this current case.

20 The Company has already spent much more than the entire amount of rate case expense  
21 RUCO would allow solely on cost of capital expertise from the Brattle Group.

22

1           **B.     ARIZONA CORPORATE ALLOCATED EXPENSES**

2       **Q.     MR. MOORE (PAGE 30, LINES 11 – 19) STATES HE IS ADJUSTING TEST**  
3       **YEAR ARIZONA CORPORATE ALLOCATED EXPENSES DOWNWARD**  
4       **(\$18,233). HOW DO YOU RESPOND?**

5       **A.     Mr. Moore's Schedule RLM-12, Page 3, Line 20 removes a Corporate Expense of**  
6       **\$33,660 with the suggestion that the Company capitalize this expense. This expense is**  
7       **payment to an executive search company for the filling of an executive position - our**  
8       **Phoenix based Engineering Manager - who oversees all of the engineering functions**  
9       **within the company. This position has been filled and the individual continues to work**  
10      **for the Company. This is a regular, normal and recurring expense for many positions**  
11      **within the organization and one would not capitalize such a human resource expense.**  
12      **This same firm was paid a similar amount three months later for a Cost Engineer position**  
13      **and again two months later for a Project Manager position. The Company presently has a**  
14      **high job vacancy rate and it is in the best interests of our customers that these positions**  
15      **be filled with the appropriate qualified persons. Paradise Valley's 8.12% share of this**  
16      **expense is \$2,733 and it should be included in rates.**

17      **Q.     MR. MOORE'S SCHEDULE RLM-12, PAGE 3, LINE 40 DISALLOWS THE**  
18      **NON-LOBBYING PORTION OF THE COMPANY'S DUES TO THE NATIONAL**  
19      **ASSOCIATION OF WATER COMPANIES IN THE AMOUNT OF \$17,895.**  
20      **HOW DO YOU RESPOND?**



1 A. NAWC is the only national trade association for private and investor-owned water  
2 utilities. Its members provide safe, reliable drinking water to 22 million Americans.  
3 NAWC seeks to strengthen America's investor-owned drinking water supply industry by  
4 bringing its members information and knowledge to respond to federal legislative and  
5 state regulatory initiatives having broad impacts on the industry. The association acts as  
6 a forum for private and investor-owned water utilities, in which to exchange best  
7 practices in customer service and operational practices. For instance, at the recent  
8 NAWC sponsored National Drinking Water Symposium held last October, among the  
9 many topics presented and discussed included lessons learned from Hurricane Katrina  
10 and Rita; updates on American Water Works Association Research Foundation studies  
11 and how they can be applied by water companies; how to more broadly communicate  
12 wise water use to utility customers; progress of a program which uses weather forecasts  
13 to communicate critical water and environmental issues; how Integrated Water Resource  
14 Management can result in enhanced source water protection and reliability along with  
15 increased cost efficiencies and sustainable development; recent efforts to improve  
16 technical, financial and managerial capacity of small water systems; how good customer  
17 service made a difference during a condemnation attempt of a water company; new  
18 approaches to low income customer assistance programs to assist with affordability  
19 challenges; and new technologies and approaches to help ensure drinking water security.  
20 The association's relations with federal legislators, agency directors and public service  
21 commissions, improve its members effectiveness in addressing common concerns of the  
22 industry. Paradise Valley's 8.12% share of this expense is a modest \$1,453 and it should  
23 be included in rates.

1 **Q. MR. MOORE'S SCHEDULE RLM-12, PAGE 3, LINES 42 – 43 REMOVES**  
2 **BOARD OF DIRECTOR FEES AND EXPENSES OF \$15,687? IS THIS**  
3 **APPROPRIATE?**

4 A. Board of Director's fees and expenses are only associated with external (non American  
5 Water employee) board members. Arizona-American's Board performs various duties  
6 necessary to governance of the company and its business as a whole. A corporation is  
7 required by law to have a board of directors. To attract and retain qualified directors,  
8 certain fees and expenses must be paid. The good conduct and financial well-being of the  
9 corporation benefits all ratepayers in many facets. The Board of Directors plays a critical  
10 role in bringing external perspectives to the Company's management. Arizona-American  
11 Water's external Board members come from business and government and act as an  
12 important resource for management as it seeks to continue progress as a water industry  
13 leader in Arizona. Without a Board of Directors with external (non American Water)  
14 membership, the Company could miss important viewpoints affecting its business,  
15 customers and communities. Paradise Valley's 8.12% share of this expense is \$1,274 and  
16 should be included in rates.

17 **Q. MR. MOORE SCHEDULE RLM-12, PAGE 3, LINE 46 DISALLOWS \$105,120 OF**  
18 **BUSINESS SERVICE PROJECT EXPENSES. HOW DO YOU RESPOND?**

19 A. The Company reorganized its business and centralized the Customer Call Center to one  
20 location in Alton, Illinois that is open 24 hours per day, 7 days per week and also  
21 centralized its accounting, employee benefits, tax, accounts payable, fixed asset, and cash  
22 management functions to a Shared Services Center. The Project Costs for doing this are  
23 being amortized and are a legitimate cost of reorganizing the business. Paradise Valley's  
24 8.12% share of this expense is \$8,536 and it should be included in rates.

1 **IV. INTERIM ARSENIC ACCOUNTING ORDER AND PUBLIC SAFETY**  
2 **SURCHARGE**

3 **Q. DOES THE COMPANY STILL REQUEST AN INTERIM ACCOUNTING**  
4 **DEFERRAL ORDER FOR ARSENIC FACILITIES IN PARADISE VALLEY?**

5 **A.** No. As the rebuttal testimony of Company Witness Mr. Gross states, the new arsenic  
6 facility serving Paradise Valley district will be in-service in August 2006. We anticipate  
7 a final order in this case by that time, so such an accounting deferral order is no longer  
8 necessary.

9 **Q. COMMISSION STAFF AND RUCO RECOMMEND APPROVAL OF THE**  
10 **COMPANY'S REQUEST FOR AN ACRM. HOW DO YOU RESPOND?**

11 **A.** The Company appreciates this recommendation and accepts the requirement stated on  
12 page 23, line 2 of Mr. Igwe's testimony for the company to file its next rate case not later  
13 than September 30, 2008. The Company, however, is quite concerned by vague and  
14 unsupported statements concerning the prudence of our Paradise Valley arsenic facility  
15 made by RUCO witness Moore. These statements are addressed by Company witness  
16 Mr. Gross.

17 **Q. MR. TOWNSLEY, IN SUPPORT OF A REVISED TWO-STEP PUBLIC SAFETY**  
18 **SURCHARGE, STATES THE COMPANY WILL FILE SUPPORTING**  
19 **SCHEDULES AT THE TIME A STEP INCREASE IS SOUGHT? IS THAT**  
20 **CORRECT?**

1 A. That's correct. It is my responsibility to file all ten schedules at the time of a specific  
2 step increase. I remind the Commission that schedules 5 and 7 will display as a  
3 contribution the total actual high block surcharge revenues as a reduction to fire flow rate  
4 base, thereby directly reducing any Public Safety surcharge. Schedule 3 will display the  
5 earnings test information, which serves as a ceiling on a step increase.

6 V. **40% EQUITY AND NEXT RATE CASE**

7 Q. **COMMISSION STAFF WITNESS ROGERS (PAGE 35, LINES 20-23)**  
8 **RECOMMENDS THAT THE COMPANY BE REQUIRED TO OBTAIN A**  
9 **MINIMUM 40% EQUITY POSITION PRIOR TO FILING ITS NEXT RATE**  
10 **CASE. HOW DO YOU RESPOND?**

11 A. While the Company and Commission Staff share the goal of attaining and maintaining a  
12 minimum 40% equity ratio, we apparently disagree on some of the means to do so. I  
13 urge the Commission to reject any recommendation for a new rate case filing  
14 moratorium. The Company's previous three-year rate case filing moratorium expired on  
15 January 11, 2006. To improve the Company's equity ratio, we must file new rate cases  
16 to recover past and new investments and increased costs. Absent these required filings,  
17 the Company would be unable to improve, let alone maintain its existing equity ratio.  
18 Further, Mr. Rogers' recommendation would be contrary to the minimum equity  
19 agreement negotiated with Staff just three years ago and approved by the Commission as  
20 part of the RWE acquisition conditions (Decision No. 65453, December 12, 2003). It  
21 would also contravene Commission-mandated rate-filing deadlines established in recent  
22 ACRM rate cases. Nor would the recommendation provide any economic benefit to  
23 customers and it would harm our ability to fund on-going construction projects. Finally,  
24 even though other utilities in Arizona have equity ratios below 40%, the Commission has  
25 never sanctioned such draconian measures to help the utility to improve its equity ratio.

1 **Q. WHY MUST ARIZONA-AMERICAN FILE NEW RATE CASES?**

2 A. In Decision No. 65453, the Commission conditioned approval of RWE's acquisition of  
3 American Water on a three-year moratorium (until January 11, 2006) on rate case filings.  
4 In Decision No. 67593, the Commission specifically granted relief from this condition to  
5 allow filing of this rate case for the Company's Paradise Valley Water District. No other  
6 rate cases could be filed until January 11, 2006. The Company promptly filed its next  
7 rate cases on January 13, 2006, for its Mohave Water and Wastewater districts. We did  
8 not receive Commission Staff's testimony in this case until afterwards on January 17,  
9 2006. Later in 2006, the Company expects to file a rate case for its Anthem Water  
10 district, its Anthem / Agua Fria Wastewater district, its Sun City Wastewater district and  
11 its Sun City West Wastewater district.

12 Rate cases are required for many of our districts, because costs have increased and the  
13 Company has made new investments, for which it is entitled recovery. Because of the  
14 rate moratorium, there is a backlog of cases that would otherwise have been filed earlier.  
15 Many of Arizona-American's districts are earning almost nothing or even demonstrate  
16 negative earnings. Further, Arizona-American has been unable to pay any dividends to  
17 American Water since 2003. Equity is created through retained earnings, but, given the  
18 Company's overall earnings record over the last several years, retained earnings have  
19 actually been negative—equity has been destroyed. To reverse this trend, new rate cases  
20 must be filed and timely rate relief received.

21 **Q. HAS THE COMMISSION ALREADY IMPOSED A MINIMUM-EQUITY**  
22 **REQUIREMENT?**

1 A. Yes. In 2003, Arizona-American and Staff negotiated a number of conditions concerning  
2 approval of RWE's purchase of American Water. Among those conditions was  
3 Condition No. 12, which reads

4 #12. Arizona-American shall maintain a minimum common equity ratio of 35 percent of  
5 total capital. Arizona-American's total capital is defined as common equity, preferred  
6 equity, and long-term debt. Arizona-American shall not make remittances or pay  
7 dividends to American Water Works unless Arizona-American's common equity is at  
8 least 35 percent of total capital. If Arizona-American's common equity falls to 30 percent  
9 of total capital, American Water Works shall provide a cash infusion of equity sufficient  
10 to bring Arizona-American's common equity ratio back to a minimum of 35 percent of  
11 total capital. Arizona-American shall not be prohibited from requesting that the foregoing  
12 equity percentages be decreased based on changes to capital markets or other conditions  
13 that make it prudent to alter Arizona-American's capital structure.

14 Staff recommended approval of this condition and the Commission adopted it without  
15 modification. (Decision No. 65453, December 12, 2003). However, the Commission did  
16 depart from one Staff recommendation and imposed a three-year rate case moratorium in  
17 Condition 15, instead of the one year recommended by Staff. Even though condition 12  
18 permits the Company to request the equity percentages be decreased, it has not done so.

19 Q. HOW DOES MR. ROGERS' PROPOSAL DIFFER FROM THE MINIMUM  
20 EQUITY TARGET CURRENTLY IN PLACE FOR ARIZONA-AMERICAN?

1 A. The most important difference is that the current condition only requires an equity  
2 infusion if "Arizona-American's common equity falls to 30 percent of total capital . . ."  
3 By contrast, Mr. Rogers would penalize Arizona-American by prohibiting any rate filings  
4 if the Company's common-equity percentage is below 40 percent. This is a huge  
5 difference. As of December 31, 2005, Arizona-American's total invested capital was  
6 \$299.8 million with equity representing \$101.1 million or 33.7%. The difference  
7 between a 33.7 percent and 40 percent equity requirement is \$31.5 million in additional  
8 equity. The Company does have pending a request for a \$35 million equity infusion, but  
9 even if this is provided, the Company will not long thereafter slip again below a 40%  
10 equity ratio. It is important to note that equity infusions take a number of months from  
11 formulation of a request to actual equity infusion and rate cases likewise have long lead  
12 times to prepare, thereby further making this recommendation impractical.

13 **Q. HOW WOULD STAFF'S RECOMMENDATION CONTRAVENE CURRENT**  
14 **COMMISSION FILING REQUIREMENTS FOR ARIZONA-AMERICAN?**

15 A. In Decision No. 68310, dated November 14, 2005, the Commission ordered, among other  
16 things: "that Arizona-American Water Company shall file permanent rate applications for  
17 its Sun City West, Agua Fria, and Havasu districts by no later than April 30, 2008, based  
18 on a 2007 test year." However, Staff's recommendation would not allow these rate  
19 filings if Arizona-American's equity ratio was less than 40 percent.

20 **Q. WOULD STAFF'S RECOMMENDATION BENEFIT CUSTOMERS OR**  
21 **OTHERWISE MAKE ANY ECONOMIC SENSE?**

1 A. No. Although the Company and Staff share the goal of 40 percent equity for Arizona-  
2 American Water, no one in this proceeding can claim a precise optimal capital structure  
3 for a water company. As explained by Dr. Kolbe in his testimony, the overall cost of  
4 capital remains constant across a broad range of capital structures. This means that other  
5 things equal, customers of a utility with a higher debt ratio will enjoy lower rates - even if  
6 its ROE has been appropriately adjusted upward to reflect increased financial risk. The  
7 reason being that the tax benefit associated with the use of debt is passed on to customers  
8 in the form of lower rates.

9 **Q. ARE SHAREHOLDERS SOMEHOW BENEFITING FROM A LOW EQUITY**  
10 **RATIO?**

11 A. No. The shareholders are seeing their equity destroyed. At page 35 of his testimony, Mr.  
12 Rogers testifies that the Commission should not adjust Arizona-American's rate of return  
13 to reflect financial risk in the next rate case. This is the equivalent of recommending that  
14 the Commission grant the Company a rate of return *lower* than its cost of capital - as  
15 punishment for not earning its cost of capital (as evidenced by not maintaining its equity  
16 ratio.)

17  
18 Mr. Roger's recommendation can only lead me to believe that Commission Staff simply  
19 has not taken appropriate notice and consideration of the Company's current poor  
20 financial condition. Unlike other large Arizona utilities with thin equity, Arizona-  
21 American Water has not paid a dividend since 2003 and will not pay one in 2006. While  
22 those utilities enjoy the benefit of rates designed to allow them to earn on equity that  
23 doesn't exist and they continue to pay dividends, we once again face the prospect of a  
24 rate moratorium. Staff's recommendations and testimony in this and other recent cases  
25 (e.g., Ms. Crystal Brown, ACRM cases) indicates that they believe that the Company's



1 deteriorating equity ratio is somehow a benefit to shareholders, when that is clearly not  
2 the case.

3  
4 **Q. MR. ROGERS MENTIONS THAT THE COMPANY WAS REQUIRED TO FILE**  
5 **AN EQUITY PLAN BY DECEMBER 31, 2005. DID ARIZONA-AMERICAN**  
6 **MAKE THIS FILING?**

7 **A.** Yes. On November 30, 2005, Arizona-American filed the comprehensive equity-  
8 maintenance plan required by Decision No. 68310. Although Mr. Rogers never discusses  
9 the content of the plan, Staff had this plan to review for approximately six weeks before  
10 their testimony was due in this case. The Company is most interested in Commission  
11 Staff's overall opinion of this plan. As the testimony of Mr. Townsley indicates, the  
12 Company has requested a \$35 million equity infusion in 2006, but unfortunately the  
13 Company just suffered an equity impairment of approximately \$23 million under FAS  
14 142 which partially offsets the equity ratio improving benefit of the infusion. This  
15 impairment is reflected in the 33.7% equity ratio stated above.

16  
17 The 2005 Equity Plan is very frank about the financial challenges currently facing  
18 Arizona-American and those it will continue to face over the next five years. As a result,  
19 even with the requested 2006 equity infusion, the Company still expects to have  
20 difficulty maintaining a 40% equity ratio. However, for the Company to have any shot at  
21 maintaining this target, it must be able to timely file rate cases to recover the  
22 extraordinary investments and other costs that are not yet reflected in rates. If the  
23 Company were to face a new moratorium, I would expect it to shortly thereafter file  
24 emergency rate cases or take even stronger action.

1    **Q.    ARE THERE OTHER ARIZONA UTILITIES WITH EQUITY RATIOS BELOW**  
2        **40%?**

3    A.    Yes. Putting aside certain small water utilities that effectively are 100% debt financed,  
4        Arizona's second largest investor-owned electric company, Unisource Energy, has only  
5        about a 25% equity ratio, and Arizona's largest natural-gas distribution company,  
6        Southwest Gas, had a test-year equity ratio in its last rate case of 35.8%.

7    **Q.    HAS STAFF PROPOSED RATE CASE MORATORIUMS FOR EITHER**  
8        **UNISOURCE ENERGY OR SOUTHWEST GAS?**

9    A.    Not to my knowledge. In fact, these two utilities utilize another method to help them  
10       increase their equity ratios. The Commission allows each utility to use a hypothetical  
11       capital structure as a mechanism to help it improve actual equity ratios. Staff still  
12       supports this mechanism.<sup>1</sup> In its just filed Mohave rate cases, the Company requests a  
13       hypothetical capital structure. And because of new federal arsenic standards and other  
14       requirements, Arizona-American's net investment per customer, both currently and  
15       required in the future, is likely substantially higher than either Unisource Energy or  
16       Southwest Gas.

17   **Q.    DOES IT MAKE SENSE TO SINGLE OUT ARIZONA-AMERICAN FOR**  
18        **PUNITIVE EQUITY INCENTIVES?**

19   A.    No. Staff has in no way suggested that Arizona-American deserves some kind of  
20       punishment, yet their recommendation if implemented would be a punishment.

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<sup>1</sup> See direct testimony of Staff witness James J. Dorf in Docket No. E-0933A-04-0408, dated June 24<sup>th</sup>, 2005, and direct testimony of Staff witness Stephen G. Hill in Docket No. G-01551A-04-0876, dated July 26, 2005, as well as previous rate case dockets for Tucson Electric Power Company and Southwest Gas Corporation.

1 **VI. PROJECTIONS**

2 **Q. IF THE RATES PROPOSED BY THE COMPANY IN ITS REBUTTAL CASE**  
3 **ARE APPROVED BY THE COMMISSION, WILL THE COMPANY HAVE A**  
4 **REASONABLE OPPORTUNITY TO EARN ITS AUTHORIZED RETURN**  
5 **DURING THE PERIODS NEW RATES ARE IN EFFECT?**

6 A. Even though the Commission supports several important rate-making innovations such as  
7 the ACRM and the high block surcharges for which the Company is appreciative, the  
8 answer, unfortunately, is not really. The Company estimates that the electric rate  
9 increases sought by APS in 2006, if approved, will increase our electricity costs in  
10 Paradise Valley alone by over \$120,000 per year as per their E-221 tariff. Furthermore,  
11 incremental electricity consumed at the new Paradise Valley arsenic removal facility in  
12 Paradise Valley is ineligible for recovery in the ACRM. The Company already employs  
13 the employee that will operate that facility and has requested recovery of his labor costs  
14 in this rate case. If that request is not authorized, the Company will absorb the cost of  
15 that position until at least mid-2009 as such labor costs are not eligible for recovery in the  
16 ACRM. Also, labor and labor-related expenses, in general, increase with inflation each  
17 year and Paradise Valley is largely built-out and lacks customer growth helpful for  
18 covering inflation. Furthermore, the high block surcharge will result in conservation –  
19 exactly how much is unknown presently. Tariffs are based on test-year adjusted amounts  
20 and sales volume declines are a distinct possibility. For all these reasons and more, the  
21 Company has accepted Commission Staff's proposal to file its next rate case not later  
22 than September 30, 2008. Fortunately, Paradise Valley is not a former Citizens water  
23 district and, therefore, its earnings are not impacted by financial legacy issues such as  
24 regulatory advances and contributions excluded from rate base.

25  
26 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

1 A. Yes.

## INCOME ADJUSTMENT AAW-4 RATE CASE EXPENSE

| Calculation of Rate Case Expense |                     |                     |                     |
|----------------------------------|---------------------|---------------------|---------------------|
| Description                      | Company As Filed    | Staff Adjustment    | Company As Revised  |
| Jim Harrison - Consultant        | \$14,500.00         | \$9,288.00          | \$9,288.00          |
| Legal Fees                       | \$36,000.00         | \$0.00              | \$0.00              |
| Shared Service Center (SSC)      | \$72,949.00         | \$22,687.00         | \$22,687.00         |
| SSC Expense                      | \$4,100.00          | \$3,250.00          | \$3,250.00          |
| Company Labor                    | \$39,594.00         | \$57,559.00         | \$57,559.00         |
| Company Expenses                 | \$14,830.00         | \$4,855.00          | \$4,855.00          |
| Cost of Capital / Brattle Group  | \$79,383.00         | \$79,134.00         | \$158,267.00        |
| Witness Training                 | \$6,500.00          | \$3,250.00          | \$3,250.00          |
| Cost of Service & Rate Design    | \$14,985.00         | \$28,677.00         | \$42,677.00         |
| <b>Total</b>                     | <b>\$282,841.00</b> | <b>\$208,700.00</b> | <b>\$301,832.00</b> |
| Three Year Average               | \$94,280.00         | \$69,567.00         | \$100,610.67        |

Stevenson Testimony

Strike P1 - P2, L15.

Tom Broderick -  
P2, L17 - P5, L2  
P11, L2 - P12, L9  
P14, L9 - P20, L3  
P32, L4 - P35, L9.

Joel Reiker -  
P5, L4 - P10, L22  
P12, L11 - P14, L7  
P25, L15 - P32, L2  
P35, L11 - End.

Paul Townsley -  
P20, L5 - P25, L13.

Or, in order:

P1 - P2, L15; Strike  
P2, L17 - P5, L2; Broderick  
P5, L4 - P10, L22; Reiker  
P11, L2 - P12, L9; Broderick  
P12, L11 - P14, L7; Reiker  
P14, L9 - P20, L3; Broderick  
P20, L5 - P25, L13; Townsley  
P25, L15 - P32, L2; Reiker  
P32, L4 - P35, L9; Broderick  
P35, L11 - End; Reiker

EXHIBIT

A-19

admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
INC., AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON FOR  
UTILITY SERVICE BY ITS PARADISE VALLEY  
WATER DISTRICT.

DOCKET NO. W-01303A-05-

DIRECT TESTIMONY  
OF  
DAVID P. STEPHENSON  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
JUNE 3, 2005

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1           **I. INTRODUCTION AND QUALIFICATIONS**

2       **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3       A. My name is David P. Stephenson and my business address is 4701 Beloit Drive,  
4           Sacramento, CA 95838.

5  
6       **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7       A. I am employed by American Water Works Service Company ("Service Company") as the  
8           Rates Regulation Manager for the Western Region of American Water Works Company  
9           ("American Water").

10  
11       **Q. WHAT ARE YOUR RESPONSIBILITIES WITH THE WESTERN REGION OF**  
12       **AMERICAN WATER?**

13       A. I am responsible for preparing, filing, and processing requests for rate adjustment,  
14           financing, acquisition or any other applications before the state public utility regulatory  
15           agencies in each Western Region jurisdiction. Presently, the states in which American  
16           Water Western Region subsidiaries provide regulated utility service are Arizona,  
17           California, Hawaii, New Mexico, and Texas.

18  
19       **Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

20       A. I received a Bachelor of Science in Business Administration, with an emphasis in  
21           Accounting from San Diego State University. Additionally, I have attended and instructed  
22           various seminars on different aspects of the water industry, including the Bi-annual Utility

1 Rate Seminar sponsored by the National Association of Water Companies (NAWC) for  
2 members of the National Association of Regulatory Utility Commissioners (NARUC) and  
3 their staff.  
4

5 **Q. HAVE YOU TESTIFIED BEFORE ANY REGULATORY AGENCIES?**

6 A. Yes. I have testified on numerous occasions before public utility regulatory agencies in  
7 the states of Arizona, California and New Mexico. I also participated in regulatory  
8 matters before the public utility regulatory agency for the state of Hawaii and I am  
9 currently participating in two applications pending before the public utility regulatory  
10 agency in the state of Texas.  
11

12 **Q. WHAT ARE YOUR RESPONSIBILITIES IN THIS PROCEEDING?**

13 A. I am generally responsible for the preparation and coordination of this application,  
14 including supervision of internal staff, coordination of outside consultants, and  
15 coordination of activities between other Service Company employees.  
16

17 **Q. WHAT ISSUES DO YOU ADDRESS IN YOUR TESTIMONY?**

18 A. I address several issues and specific adjustments in this general rate case application for  
19 the Paradise Valley District of Arizona-American Water Company ("Arizona-American"  
20 or the "Company"). Those issues include Paradise Valley's rate base and associated  
21 adjustments, the cost of capital (excluding return on equity), adjustments to certain test-  
22 year expenses, Arizona-American's request for Arsenic Cost Recovery Mechanism

1 ("ACRM") and Public Safety ("PS") surcharges; a request for high block surcharges to be  
2 accounted for as a contribution, and gain on sale issues. Additional support for other  
3 proposed adjustments to revenues and expenses will be provided by outside consultants,  
4 and employees of Service Company and Arizona-American.

5  
6 **Q. WHY IS ARIZONA-AMERICAN FILING A GENERAL RATE CASE FOR**  
7 **PARADISE VALLEY AT THIS TIME?**

8 A. Arizona-American is currently in the process of investing over \$40 million in new  
9 facilities in its service territory, including over \$19 million in Paradise Valley, in order to  
10 comply with the U.S. Environmental Protection Agency's ("EPA") new arsenic  
11 containment standard for drinking water. In connection with this undertaking, Arizona-  
12 American will incur significant on-going operating and maintenance expenses.  
13 Recovering at least a portion of these costs on a timely basis, rather than waiting for  
14 delayed recovery through a future general rate case, is important to maintaining the  
15 financial health of Arizona-American, as I am sure it is equally important to the financial  
16 health of other water utilities facing the same situation. Therefore, Arizona-American is  
17 requesting approval in this proceeding of an ACRM to recover a portion of these costs.

18  
19 Because the record in Paradise Valley's previous general rate case (Decision 61831, dated  
20 July 20, 1999) is too stale to be reopened for the purpose of addressing this issue, and  
21 because Arizona-American is currently under-earning in Paradise Valley, the Company is  
22 filing a general rate case at this time. Additionally, Arizona-American is requesting that

1 the Commission issue an interim accounting order in this proceeding approving the  
2 deferral of capital costs (depreciation and gross return) related to arsenic-removal facilities  
3 placed into service in Paradise Valley prior to the ACRM going into effect. Arizona-  
4 American anticipates filing an ACRM Step 1 increase shortly after the final decision in  
5 this case.

6  
7 Additionally, Arizona-American is currently in the process investing over \$16 million in  
8 Paradise Valley to improve fire flows. Arizona-American is requesting approval of a  
9 Public Safety ("PS") surcharge) mechanism for the purpose of recovering all capital  
10 related costs for fire flow improvements completed through the first quarter of 2006, to  
11 become effective on the same date as new base rates approved in this proceeding,  
12 Additionally, Arizona-American is requesting that the Commission issue an interim  
13 accounting order in this proceeding approving the deferral of capital costs (depreciation  
14 and gross return) related to PS improvements placed into service in Paradise Valley prior  
15 to the surcharge going into effect. The PS surcharge will be adjusted annually for future  
16 plant additions.

17  
18 **Q. WHEN DOES ARIZONA AMERICAN PLAN TO FILE ITS NEXT RATE CASE**  
19 **FOR PARADISE VALLEY?**

20 **A.** Once implemented, the ACRM and PS surcharges should reduce the need to file several  
21 rate cases in the near-term to recover costs related Arizona-American's capital plan.

1 Therefore, Arizona-American presently plans to file its next general rate case for Paradise  
2 Valley not later than May 2010.

3  
4 **II. GENERAL RATE CASE ISSUES**

5 **A. RATE BASE**

6 **Q. PLEASE EXPLAIN HOW THE COMPANY ARRIVED AT ITS TEST YEAR**  
7 **ORIGINAL COST RATE BASE OF \$11,651,216, SHOWN ON SCHEDULE B-1,**  
8 **LINE 12.**

9 A. The Original Cost Rate Base ("OCRB") was calculated by establishing the balance of  
10 Utility Plant in Service ("UPIS") as of December 2004, per the Company's books.  
11 Typical rate base deductions (accumulated depreciation, contributions, etc.) and additions  
12 (working capital, etc.) were then calculated to arrive at the actual end of test year rate base  
13 of \$15,253,666, shown in column (a), line 12 of Schedule B-2. Finally, the Company  
14 made various pro forma adjustments totaling negative (\$3,602,449) to the actual end of  
15 test year rate base to arrive at its adjusted end of test year rate base of \$11,651,216.

16  
17 **Q. PLEASE EXPLAIN THE COMPANY'S PRO FORMA ADJUSTMENTS SHOWN**  
18 **ON SCHEDULE B-2.**

19 A. The adjustments shown on Schedule B-2 are:

20  
21 ADJUSTMENT (1): \$73,781. Adjustment (1) increases UPIS to reflect Paradise Valley's  
22 allocation of the capital costs of: 1) the Arizona-American corporate office, located in

1 Phoenix and 2) the Arizona-American Central District office, located in Sun City. These  
2 offices were first allocated to Arizona-American and Service Company based on the ratio  
3 of Arizona-American employees to Service Company employees residing in the complex.  
4 A portion of the Service Company allocation was then allocated to the Western Region  
5 operating companies, including Arizona-American, based on year-end customers. Finally,  
6 the Arizona-American allocation was allocated to Paradise Valley based on year-end  
7 customers.

8  
9 ADJUSTMENT (2): (\$3,646,198). Adjustment (2) removes construction work in  
10 progress ("CWIP") from net UPIS. CWIP at the end of the test year includes arsenic  
11 removal and fire flow projects.

12  
13 ADJUSTMENT (3): \$30,033. Adjustment (3) increases accumulated depreciation to  
14 reflect accumulated depreciation related to Adjustment (1).

15  
16 **B. COST OF CAPITAL**

17 **Q. WHAT CAPITAL STRUCTURE DOES ARIZONA-AMERICAN PROPOSE?**

18 A. The Company proposes a capital structure comprised of 63.3 percent debt and 36.7  
19 percent equity, as shown in Schedule D-1.

20  
21 **Q. HOW WAS THIS PROPOSED CAPITAL STRUCTURE DETERMINED?**

1 A. The Company's proposed capital structure reflects Arizona-American's actual balances of  
2 debt and equity as of December 2004, as reflected in Schedule E-1.2.

3  
4 **Q. WHAT COST OF DEBT DOES ARIZONA-AMERICAN PROPOSE?**

5 A. Arizona-American proposes a 5.42 percent cost of debt, shown in Schedule D-2.

6  
7 **Q. HOW WAS THE PROPOSED COST OF DEBT DETERMINED?**

8 A. The proposed cost of debt reflects the weighted average cost of Arizona-American's notes  
9 and bonds as of December 2004, adjusted to reflect the November 2006 refinancing of the  
10 November '01 series, and the January '02 series bonds.

11  
12 **Q. WHY DID THE COMPANY ADJUST THE COST OF THESE BONDS?**

13 A. The Company adjusted the cost of these bonds because they become due and payable and  
14 must be refinanced in November 2006. These bonds will be refinanced at the current  
15 2005 market rate, which is a higher rate, and that rate should be recognized in determining  
16 the Company's cost of service. The new interest rate reflects the current borrowing rate  
17 for American Water Capital Corporation ("AWCC"), which is approximately 70 basis-  
18 points above the current yield on U.S. Treasury securities of equivalent maturity. AWCC  
19 is currently rated A by Standard & Poor's and Baa1 by Moody's. As of April 15<sup>th</sup>, 2005,  
20 the average yield on A-rated and Baa-rated utility bonds was 5.74 percent.<sup>1</sup>

21

1 For the week ending March 28, 2005, the Federal Reserve's average calculated rate for a  
2 Treasury security with a constant maturity of twenty years was 5.01 percent. To this rate,  
3 the Company added 70 basis points to arrive at the adjusted rate of 5.71 percent applied to  
4 the bonds listed on lines 4 and 5 of Schedule D-2. No adjustment was made for issuance  
5 costs.

6  
7 **Q. WHAT IS ARIZONA-AMERICAN'S PROPOSED RATE OF RETURN ON**  
8 **EQUITY ("ROE") AND RESULTING PROPOSED OVERALL RATE OF**  
9 **RETURN ("ROR")?**

10 A. Arizona-American proposes a 12.0 percent ROE, which is based on the findings of Dr. A.  
11 Lawrence Kolbe (12 percent to 13 percent), and supported by the analysis of Dr. Michael  
12 J. Vilbert, both of The Brattle Group. Our resulting proposed overall ROR is 7.84 percent,  
13 as shown in Schedule D-1.

14  
15 **Q. WHY IS ARIZONA-AMERICAN COMPANY REQUESTING AN AUTHORIZED**  
16 **ROE AT THE LOW END OF THE EQUITY COST RANGE ESTIMATED FOR**  
17 **PARADISE VALLEY BY DR. KOLBE?**

18 A. Dr. Kolbe has proposed a range in his findings on ROE of 12 percent to 13 percent, and  
19 recommended the mid-point of this range, or 12.5%. The Company agrees with this  
20 finding, and in most instances would accept this recommendation. However, in this case,  
21 the Company has decided to use the low end of the range to minimize contentious issues.

---

<sup>1</sup> Value Line Selection & Opinion April 15, 2005.



**Q. HOW DOES ARIZONA-AMERICAN'S OVERALL COST OF CAPITAL AND PROPOSED RATE OF RETURN COMPARE TO RETURNS RECENTLY AUTHORIZED FOR WATER UTILITIES IN ARIZONA?**

**A.** The 7.84 percent rate of return we are proposing in this case is lower than the average rate of return (8.2%) awarded by this Commission since late 2002. (See Table 1)

Table 1<sup>2</sup>

| Decision No. | Date     | Approved ROR |
|--------------|----------|--------------|
| 65350        | 11/01/02 | 8.1%         |
| 66782        | 02/13/04 | 9.1%         |
| 66849        | 03/19/04 | 8.7%         |
| 67093        | 06/30/04 | 6.5%         |
| 67279        | 10/05/04 | 8.7%         |
| 67455        | 1/04/05  | 8.1%         |
| Average      |          | 8.2%         |

Excluding Arizona-American's 6.5 percent rate of return allowance in Decision No. 67093, the proposed ROR in this case is lower than any of the returns listed in Table 1. This lower proposed rate of return is the result of a combination of the requested ROE, which is at the low end of Dr. Kolbe's range, and our low cost of debt.

**Q. WHAT IS MEANT BY LOW COST OF DEBT?**

**A.** Because the majority of Arizona-American's debt is issued internally by our affiliate AWCC, our cost of debt is lower than it would otherwise be. In other words, if Arizona-

<sup>2</sup> As of April 2005. Includes Class A and B water/wastewater utilities. Excludes decisions based on separate negotiated settlement agreements.

1 American were spun-off and/or forced to issue 100 percent of its debt to outside lenders,  
2 the cost of that debt would be significantly higher than it is currently.

3  
4 **Q. WHY WOULD THE COST OF DEBT BE HIGHER?**

5 A. The reason the debt cost would be higher is because Arizona-American would not be an A  
6 or Baa-rated company, as AWCC is. On a stand-alone basis, Arizona-American would  
7 probably be rated poorly. In fact, at the end of 2004 Arizona-American's outside lender,  
8 CoBank, downgraded Arizona-American from a "4" risk rating to a "7" risk rating.  
9 CoBank assigns a risk rating to each of its borrowers as part of their pricing and credit  
10 underwriting process. They currently use a 14-point scale, with 1 being the highest credit  
11 quality. According to CoBank, the main driver in the deterioration in the creditworthiness  
12 of Arizona-American has been the inability of operating cash flow to keep pace with the  
13 amount of debt capital that has been required to meet capital requirements in the service  
14 territory. As a result, Arizona-American's cost of debt would significantly increase if new  
15 debt was required from CoBank. As of May 6, 2005, CoBank instructed the Company  
16 that its borrowing rate was 7.10%.

17  
18 **Q. DOES THE FACT THAT ARIZONA-AMERICAN AND ITS CUSTOMERS**  
19 **BENEFIT FROM A LOWER EMBEDDED COST OF DEBT JUSTIFY AN ROE**  
20 **LOWER THAN WHAT THE COMPANY WOULD OTHERWISE RECEIVE?**

21 A. No. Such an outcome would not constitute a fair return. Messrs. Kolbe and Vilbert  
22 address the appropriate ROE in their testimonies.

1  
2 **Q. DOES THE COMPANY BELIEVE IT WILL HAVE THE OPPORTUNITY TO**  
3 **EARN ITS AUTHORIZED RETURN?**

4 A. No, for several reasons. As I discuss below, Arizona-American is currently in the process  
5 of investing over \$35 million in new facilities in Paradise Valley to comply with the  
6 EPA's new arsenic containment standard for drinking water and to improve public safety.  
7 The Company has requested approval of ACRM and PS surcharges to recover a portion of  
8 the costs related to these projects. However, the Company will incur significant on-going  
9 operating and maintenance expenses related to arsenic treatment, which has not been  
10 requested for recovery for at least one year after incurrence or until the next general rate  
11 case. Additionally, the PS surcharge has regulatory lag automatically built in as part of  
12 the recovery (i.e. – the surcharge is only adjusted annually for all construction that may be  
13 finalized throughout the year).

14  
15 While I believe the partial cost recovery mechanisms proposed below are a step in the  
16 right direction, certain aspects of Arizona rate setting, such as the use of an historic test  
17 year and the inability to recover significant expense increases in the absence of a general  
18 rate case lead me to believe that regulated water utilities in Arizona likely cannot expect to  
19 earn their authorized return, on average, without significant customer growth. The fact  
20 that Paradise Valley did not earn its authorized return at all during the 1990s, despite  
21 having filed five rate cases during that period, is further evidence that the Company - and

1 utility investors in Arizona for that matter - do not believe they can earn the authorized  
2 rate of return under traditional Arizona ratemaking arrangements.

3  
4 **Q. HAVE YOU PREPARED AN EXHIBIT SHOWING AUTHORIZED AND**  
5 **EARNED RETURNS FOR PARADISE VALLEY?**

6 A. Yes. Exhibit DPS-1 shows authorized and earned returns for Paradise Valley from 1991  
7 to 2001.<sup>3</sup> During that period, Paradise Valley fell short of its overall authorized rate of  
8 return by a total of approximately \$1.4 million and its equity investors under-earned by a  
9 total of approximately \$2.6 million.

10  
11 **C. TEST YEAR EXPENSE ADJUSTMENTS**

12 **Q. PLEASE EXPLAIN THE EXPENSE ADJUSTMENTS YOU SPONSOR ON**  
13 **SCHEDULE C-1**

14 A. The adjustments I sponsor on Schedule C-1 are:

15  
16 ADJUSTMENT D-1: (\$60,527). Adjustment D-1 normalizes test year net depreciation  
17 and amortization expense to reflect the Company's adjusted UPIS. Depreciation expense  
18 was calculated by multiplying adjusted UPIS and corporate-allocated plant account  
19 balances by their assigned depreciation rates. Contribution depreciation was calculated in  
20 the same manner and subtracted from depreciation expense to arrive at net depreciation  
21 expense of \$681,374. Test year amortization of CPS and Mummy Mountain acquisition

1 costs of \$32,634 and \$6,570, respectively, were then added to normalized net depreciation  
2 expense to arrive at normalized net depreciation and amortization expense of \$720,578.

3  
4 ADJUSTMENT E-1: (\$14,879). Adjustment E-1 normalizes test year property tax  
5 expense to reflect Staff's property tax calculation methodology. A three-year average of  
6 revenues was multiplied by two and reduced by the book value of transportation  
7 equipment to arrive at an estimate of full cash value. The assessment ratio of 25 percent  
8 was then applied to the full cash value to arrive at an assessed value of \$2,579,437. The  
9 assessed value was then multiplied by Paradise Valley's effective property tax rate of 8.24  
10 percent to estimate initial property tax expense of \$212,427. Test year taxes on parcels of  
11 \$814 were then added to initial property tax expense to arrive at total normalized property  
12 tax expense of \$213,241.

13  
14 ADJUSTMENT G-1: (\$22,449): Adjustment G-1 normalizes State income taxes to  
15 reflect all adjustments included in the application.

16  
17 Adjustment G-2: (\$101,905): Adjustment G-2 normalizes Federal income taxes to reflect  
18 all adjustments included in the application.

19  
20 ADJUSTMENT H-1: (\$66,439): Adjustment H-1 removes AFUDC earnings from the  
21 test year to reflect the removal of CWIP from rate base.

---

<sup>3</sup> Prior to 2002, Arizona American's operations included only the Paradise Valley district.

1  
2 ADJUSTMENT I-1: (\$134,592): Adjustment I-1 normalizes interest expense to reflect  
3 synchronized interest. The Paradise Valley District is a division of Arizona-American,  
4 and as such, does not have its own separate and distinct capitalization. Therefore,  
5 synchronized interest expense was calculated by multiplying Arizona-American's  
6 weighted cost of debt of 3.43 percent, as shown in Schedule D-1, by the Company's rate  
7 base of \$11,651,216, to arrive at a normalized interest expense of \$399,637  
8

9 **III. ARSENIC COST RECOVERY MECHANISM**

10 **Q. WHAT IS ARIZONA-AMERICAN'S REQUEST IN THIS PART OF THE**  
11 **PROCEEDING?**

12 **A.** Arizona-American is requesting approval of an ACRM for Paradise Valley. Additionally,  
13 Arizona-American is requesting that the Commission issue an interim accounting order in  
14 this proceeding approving the deferral of capital costs (depreciation and gross return)  
15 related to arsenic-removal facilities placed into service in Paradise Valley prior to the  
16 ACRM going into effect. Once approved, Arizona American will make a series of filings  
17 for specific ACRM surcharge step-increases based on actual capital costs and recoverable  
18 deferred and recurring operating and maintenance expenses.  
19

20 **Q. WHY IS ARIZONA-AMERICAN MAKING THIS REQUEST?**

21 **A.** As mentioned previously, Arizona American is in the process of investing over \$19  
22 million in new facilities in Paradise Valley to comply with the EPA's new arsenic

1 containment standard for drinking water. That standard goes into effect on January 23,  
2 2006. The current standard is 50 parts per billion ("ppb"). The new standard is 10 ppb.  
3 Arizona-American currently delivers water in Paradise Valley at levels below the present  
4 standard but in excess of the new standard. In order to prevent deterioration of Arizona-  
5 American's financial health, the Company must recover at least a portion of these  
6 significant costs on a timely basis.

7  
8 **Q. WHAT FACILITIES WILL ACTUALLY BE CONSTRUCTED?**

9 A. Mr. Joseph Gross addresses the technical details of the facilities Arizona-American needs  
10 to construct to comply with the new federal standard.

11  
12 **Q. HOW DOES ARIZONA-AMERICAN'S PROPOSED ACRM FOR PARADISE**  
13 **VALLEY COMPARE TO THE ACRM REQUESTED BY ARIZONA-AMERICAN**  
14 **IN DOCKET NO. WS-01303A-02-0867, ET AL?**

15 A. Arizona-American's request for Paradise Valley is almost identical to that requested in  
16 docket WS-01303A-02-0867, et al:

- 17  
18 1. The ACRM is based solely on actual costs and costs eligible for recovery, which are  
19 depreciation, gross return, and recoverable O&M.  
20  
21 2. Actual rate recovery via the ACRM commences after new arsenic facilities are in  
22 service and are in compliance with the new US EPA standard for arsenic.

3. Establishment of deadlines for filing our next rate case, without limit on Arizona American's ability to file earlier as per existing Commission orders.
4. An ACRM rate design composed of a 50/50 split of the recovery between monthly minimum charges and volumetric charges. The volumetric charges will be based on the same inclining block rate design as will be approved in this decision.
5. A financial presentation composed of ten standard schedules.
6. Recoverable O&M costs include only media replacement or regeneration, media replacement or regeneration service, and waste disposal.
7. A deferral for future recovery of up to 12 months of recoverable O&M, without return, commencing with the in-service of facility(s).
8. Two step-rate increases.
9. No true-up of the ACRM for over or under collection.
10. Gross return included in the ACRM based on the return authorized in this proceeding.



1     **Q.     HOW WILL ARIZONA-AMERICAN FINANCE THE FACILITIES?**

2     A.     The Company will finance the facilities with debt and equity. Arizona-American  
3           considered borrowing from the Arizona Water Infrastructure Finance Authority  
4           ("WIFA"), but concluded that borrowing from WIFA offered no material benefit over  
5           borrowing from AWCC. Arizona-American is currently able to borrow from AWCC at a  
6           rate of 70 basis points above Treasury — a rate much better than Arizona-American, or  
7           likely any other Arizona water company, could borrow on its own. Further, it does not  
8           appear that Arizona American would meet the interest coverage test in WIFA's  
9           requirements.

10

11    **Q.     WHAT FINANCIAL SCHEDULES WILL THE COMPANY FILE IN**  
12    **CONNECTION WITH THE ACRM?**

13    A.     Arizona-American will file the same schedules proposed in Docket No. WS-01303A-02-  
14           0867, et al. These are also the same schedules approved for Arizona Water Company's  
15           Northern Division in Decision No. 66400.

16

17    **Q.     WHAT IS ARIZONA-AMERICAN'S ANTICIPATED TIMELINE FOR THE**  
18    **PARADISE VALLEY'S ACRM?**

19    A.     The ACRM timeline will depend on: 1) the timing the completion of the facilities, and 2)  
20           the timing of a final order in this proceeding. Assuming: 1) the completion of facilities by  
21           July 2006, and 2) a final order in this proceeding also issued in July 2006, we anticipate  
22           the following timeline:

1  
2 1) An accounting order is issued in this proceeding before January 31, 2006, approving the  
3 deferral of capital costs (depreciation and gross return) related to arsenic treatment  
4 facilities completed and placed into service in Paradise Valley prior to the ACRM going  
5 into effect.

6  
7 2) A final order is issued in July 2006, and then Arizona-American files the standard  
8 ACRM schedules with the Commission in August 2006, requesting a specific step 1  
9 ACRM rate increase in Paradise Valley. Additionally, Step 1 may include arsenic  
10 treatment facility capital costs deferred prior to Step 1.

11  
12 3) The parties review the filing at an Open Meeting in September 2006 and the  
13 Commission approves a specific ACRM surcharge for Paradise Valley, which is effective  
14 on customer bills in October 2006.

15  
16 4) Arizona-American again compiles the standard ACRM schedules using actual data and  
17 files them at the Commission in August 2007, requesting a specific Step Two ACRM rate  
18 increase in Paradise Valley.

19  
20 5) The parties review the filing and later at an Open Meeting in late September 2007 the  
21 Commission approves a Step Two specific ACRM surcharge for Paradise Valley, which is  
22 effective on customer bills in October 2007.

1  
2 6) The ACRM surcharge will then remain on customer bills until the effective date of  
3 new permanent rates in Paradise Valley, at which time the ACRM will end.  
4

5 **Q. PLEASE FURTHER DESCRIBE THE REQUEST FOR AN ACCOUNTING**  
6 **ORDER.**

7 A. Arizona-American is required to comply with the EPA standards for Arsenic levels in  
8 2006. It is fully expected that the required Arsenic removal facilities will be on-line and  
9 useful well prior to the expected decision date July 2006 in this case. Since these facilities  
10 will be on-line and useful prior to the decision date, Arizona-American needs a  
11 mechanism in place to mitigate the negative income impacts of the revenue requirement  
12 for these facilities as they become useful. Since the proposal herein is to approve the  
13 ACRM after the decision date in this proceeding, it is necessary to receive an accounting  
14 order from the Commission to allow for the deferral of the return and depreciation on the  
15 completed facilities until the ACRM is in place. This accounting order needs to be issued  
16 before the end of January 2006 to ensure all revenue requirements of the facilities can be  
17 deferred.  
18

19 **Q. WHAT IS ARIZONA-AMERICAN'S PLANNED SCHEDULE FOR FILING THE**  
20 **NEXT PERMANENT RATE CASE FOR PARADISE VALLEY?**

1 A. Arizona-American currently plans to file a rate case for its Paradise Valley District not  
2 later than May 2010. The selection of this date is driven by the schedule for the PS  
3 Surcharge discussed in the next section.  
4

5 **IV. PUBLIC SAFETY SURCHARGE**

6 **Q. WHAT IS ARIZONA-AMERICAN'S REQUEST IN THIS PART OF THE**  
7 **PROCEEDING?**

8 A. Arizona-American is requesting approval of a PSS surcharge for Paradise Valley.  
9 Additionally, Arizona-American is requesting that the Commission issue an interim  
10 accounting order in this proceeding approving the deferral of capital costs (depreciation  
11 and gross return) related to public safety/fire flow improvement facilities placed into  
12 service in Paradise Valley prior to the surcharge going into effect. Once approved,  
13 Arizona American will make a series of filings for specific PS step-increases based on  
14 actual capital costs.  
15

16 **Q. WHY IS THE APPROVAL OF A SURCHARGE MECHANISM NEEDED IN**  
17 **ORDER FOR ARIZONA-AMERICAN TO COMPLETE PARADISE VALLEY**  
18 **FIRE FLOW IMPROVEMENT PROJECTS IN A TIMELY MANNER?**

19 A. Since the fire flow improvements are really a series of many individual projects, the  
20 Company cannot afford to absorb the regulatory lag on such a discretionary undertaking.  
21

1 In their testimonies, Mr. Gross and Mr. Biesemeyer discuss the identified need to improve  
2 the Paradise Valley fire flow network, the capital improvements needed to improve the  
3 network, the timing for completing those projects, and the Town of Paradise Valley's  
4 strong support for such an undertaking. In a good-faith belief that the Commission will  
5 authorize implementation of a surcharge mechanism, Arizona-American either has already  
6 completed, or will soon complete, the initial phase of the total project.

7  
8 From a ratemaking perspective, surcharges provide an alternative to frequent base rate  
9 increase requests and mitigate earnings attrition that results when large construction  
10 projects are completed between base rate cases. Earnings attrition increases investment  
11 risk that, in turn leads to increased capital costs. A surcharge mechanism also facilitates  
12 timely and orderly construction planning and helps secure the capital commitments that  
13 are vital to any planning process.

14  
15 **Q. WHAT ARE SOME OF THE UNIQUE FINANCING AND RATEMAKING**  
16 **ISSUES ASSOCIATED WITH COMPLETING CAPITAL PROJECTS TO**  
17 **REPLACE PORTIONS OF A WATER DISTRIBUTION SYSTEM?**

18 **A.** A water distribution network is not only needed to provide high quality and reliable water  
19 service to residents and businesses, it simultaneously provides water at pressures sufficient  
20 to meet fire flow demands. Rates must be set to balance the unique costs associated with  
21 the dual use of the distribution system between water use customers and fire protection  
22 service providers.

1  
2 Distribution system assets typically have long lives and extremely low annual depreciation  
3 rates. For example, currently it takes Arizona-American about 50 years to recover the  
4 original cost of capital investments completed to replace portions of its distribution  
5 network. Therefore, depreciation accrual rates that reflect long property lives minimize  
6 internal cash flows and cause a greater portion of the rate base to be externally financed  
7 than would otherwise be required. Absent a surcharge mechanism for the recovery of a  
8 portion of any significant increase in depreciation expense, completion of large  
9 construction projects only compound this cash flow problem.

10  
11 Additionally, construction projects completed to improve fire flows will not generate any  
12 additional annual revenues. The program will only enhance service to existing customers.  
13 As a result, absent a surcharge mechanism, no additional revenues will be available on a  
14 timely basis to offset cash flow erosion and earnings attrition.

15  
16 **Q. WHAT TYPES OF CAPITAL EXPENDITURES ARE PROPOSED FOR**  
17 **INCLUSION IN THE CALCULATION OF THE PUBLIC SAFETY**  
18 **SURCHARGE?**

19 **A.** The Company proposes to include capital expenditures for projects that a) improve fire  
20 flows; b) produce no significant additional revenues and c) do not materially reduce  
21 operating expenses. Records will be maintained to segregate the cost of eligible capital

1 investments and capital investments that would otherwise be made during the due course  
2 of the Paradise Valley on-going operation.

3  
4 This narrow definition of an "eligible" investment is the primary feature of the PS  
5 surcharge that distinguishes it from surcharges authorized by regulators in other states for  
6 the recovery of additional costs associated with distribution system improvement projects.  
7 Those types of surcharges include a much broader spectrum of distribution system  
8 improvements as eligible investments.

9  
10 **Q. ARE THERE ANY OTHER FEATURES OF THE PROPOSED SURCHARGE**  
11 **THAT DIFFER FROM FEATURES OF DISTRIBUTION SYSTEM**  
12 **IMPROVEMENT SURCHARGES IN PLACE IN OTHER STATES?**

13 A. Yes. Approved distribution system improvement surcharges in place in other states are  
14 typically adjusted on a quarterly basis. Arizona-American proposes only that the PS  
15 surcharge be annually adjusted.

16  
17 **Q. WHY DOESN'T ARIZONA-AMERICAN MINIMIZE EARNINGS ATTRITION**  
18 **BY USING OTHER RATEMAKING AND ACCOUNTING TECHNIQUES**  
19 **ALREADY IN PLACE?**

20 A. The Paradise Valley fire-flow improvement program consists of several revenue-neutral  
21 projects. Individually, those projects will require several hundreds of thousands of dollars

1 of capital expenditures each. However, collectively these projects will require capital  
2 expenditures in excess of \$16 million.

3  
4 Under current accounting and ratemaking precepts, completing such a program between  
5 base rate cases will result in earnings erosion and increase the need to file frequent base  
6 rate cases to minimize that impact. As noted earlier, earnings risk increases investment  
7 risk that in turn, increases the cost of capital for other externally-financed capital  
8 investments as well as the cost of financing the entire rate base. Therefore, absent a  
9 surcharge mechanism, there is no ratemaking or accounting technique other than frequent  
10 base rate case filings to offset earnings erosion.

11  
12 **Q. WHY DOESN'T ARIZONA-AMERICAN BOOK ALLOWANCE FOR FUNDS**  
13 **USED DURING CONSTRUCTION ("AFUDC") TO OFFSET A PORTION OF**  
14 **THE ANTICIPATED EARNINGS EROSION?**

15 **A.** Arizona-American does book AFUDC for most large construction projects. However,  
16 projects such as water treatment or source of supply improvement projects typically take a  
17 long time to complete and have known completion dates. As a result, the timing of a base  
18 rate case filing that includes the final cost of those projects can be synchronized for  
19 optimum rate recognition between the in-service date of the project and the cessation of  
20 AFUDC accruals. AFUDC cannot be used to offset the earnings attrition caused by  
21 completion of the Paradise Valley fire flow improvement projects for two principal  
22 reasons.



1  
2 First, several different construction projects will be completed throughout each year of the  
3 program. It would be impossible to synchronize rate recognition with the in-service dates  
4 of those projects. Consequently, even if Paradise Valley filed every year for rate relief,  
5 there would be a gap of a number of months following the completion of a revenue-neutral  
6 capital investment project during which neither a paper (i.e. AFUDC) nor a cash return  
7 could be earned.

8  
9 Second, Arizona-American does not accrue AFUDC on projects that take less than one  
10 month to complete or that individually fail to meet a certain dollar threshold. Some of the  
11 planned construction projects will be completed within a few months. Therefore, even if  
12 AFUDC were booked on the fire flow improvement projects, only a minimal amount  
13 would be recorded.

14  
15 **Q. HOW DOES ARIZONA-AMERICAN PROPOSE TO INITIALLY IMPLEMENT**  
16 **THE PUBLIC SAFETY SURCHARGE?**

17 A. Arizona-American is asking that Step One of the surcharge become effective on the same  
18 date that new base rates approved by the Commission in this docket become effective.  
19 We estimate that to be approximately mid-2006. The Step One surcharge would include  
20 the cost of fire-flow improvement projects completed by Arizona-American in 2005 and  
21 the beginning part of 2006, and include the gross return and depreciation deferred since  
22 the approval of the accounting order in this proceeding. We will provide detail related to

1 fire-flow projects currently under design or construction, which will be completed and  
2 placed into service over the course of this proceeding to ensure that those projects are in  
3 service and benefiting customers on the date new rates are approved. Fire-flow related  
4 projects completed in 2004 are already included in the calculation of new base rates  
5 approved in this rate case.

6  
7 Documents supporting the calculation of the initial surcharge will be filed no later than  
8 April 1, 2006. Based on current construction plans, the initial surcharge will then be  
9 increased in accordance with the following schedule:

|                               | <u>Filed</u>  | <u>Implemented</u> |
|-------------------------------|---------------|--------------------|
| 11 Initial (Step 1) Surcharge | April 1, 2006 | Mid-2006           |
| 12 Step 2 increase            | Mid-2007      | 45-days            |
| 13 Step 3 increase            | Mid-2008      | 45-days            |
| 14 Step 4 increase            | Mid-2009      | 45-days            |
| 15 Step 5 increase            | Mid-2010      | 45-days            |
| 16 Base Rate Increase         | May-2010      | June-2011          |

17  
18 As Mr. Townsley discusses in his testimony, the Company proposes to file its next  
19 Paradise Valley rate case in 2010, or about four years following an anticipated final order  
20 in this case. The Company anticipates both the ACRM and PS surcharges to cease  
21 following a final order in the next Paradise Valley rate case, commensurate with placing  
22 these project costs in rate base.  
23

1     **Q.     PLEASE FURTHER DESCRIBE ARIZONA-AMERICAN'S REQUEST FOR AN**  
2     **ACCOUNTING ORDER RELATED TO THE PS IMPROVEMENTS.**

3     A.     The proposed PS improvements are a discretionary expenditure in Paradise Valley. As  
4     such, Arizona-American can choose to make the investment or not, depending on many  
5     circumstances. Because there is widespread public demand for the investments, Arizona-  
6     American has decided to go forward with these facilities, subject to the approval of a  
7     reasonable cost recovery mechanism by this Commission. Part of this mechanism is to  
8     have in place an accounting order to allow the deferral of all investment costs (return and  
9     depreciation) related to portions of the project completed before the PSS is authorized.  
10    Part of the fire flow project is already complete and other portions will be complete in  
11    early 2006. The Company is not earning, or recovering depreciation, on these completed  
12    portions of the project. To mitigate this loss of return and depreciation, the Company  
13    requests that it be allowed an accounting order to defer the return and depreciation for  
14    later recovery in the first step of the PSS. It is further requested that this accounting order  
15    be issued as soon as reasonably possible after this application is filed.

16  
17    **Q.     HOW WILL ARIZONA-AMERICAN CHANGE THE FILING AND**  
18    **IMPLEMENTATION DATES FOR THE PSS IF ACTUAL FIRE FLOW**  
19    **IMPROVEMENT CONSTRUCTION CANNOT BE COMPLETED AS**  
20    **CURRENTLY PLANNED?**

21    A.     It is anticipated that each construction phase can be completed during the year that phase  
22    is scheduled to begin. However, if some phase of the project cannot be completed during

1 the same year that it begins, Arizona-American will alter its filing and implementation  
2 dates accordingly. However, Arizona-American will not make a filing for a PS step to  
3 become effective prior to twelve months after the effective date of the previous step.  
4

5 **Q. WILL THE PS SURCHARGE BE SEPARATELY IDENTIFIED ON CUSTOMER**  
6 **BILLS?**

7 A. Yes, it will be separately shown as a line item on all customers' bills, except for public fire  
8 service customers. The surcharge will not be applied to bills for public fire service  
9 customers since most Paradise Valley general water service customers are also taxpayers  
10 of communities billed for public fire service. Therefore, passing the additional fixed costs  
11 to improve fire flows to public fire service customers in the form of the PS surcharge may  
12 result in the general water service customers of Paradise Valley experiencing either higher  
13 taxes or a reduction in public services. The allocation of public fire service costs among  
14 customer classes is best addressed during proceedings for the next base rate case.  
15

16 **Q. WILL THE PS SURCHARGE BE SUBJECT TO AUDIT?**

17 A. Yes. Reports and reconciliations will be made regarding the proposed surcharge.  
18 Documents supporting the surcharge for any upcoming period will be filed with the  
19 Commission approximately 45 days prior to the implementation date. This step will  
20 ensure that eligible additions are in service prior to implementation of the surcharge. This  
21 step will also provide an opportunity for Commission review of the surcharge calculation  
22 prior to its inclusion on customer bills.

1  
2        Additionally, an annual reconciliation of revenues collected under the surcharge will be  
3        performed. Records regarding revenues collected under the surcharge will be maintained  
4        for the reconciliation period and compared to actual revenues and costs for that period.

5  
6        **Q.    HAVE YOU PREPARED AN EXAMPLE OF PUBLIC SAFETY SURCHARGE**  
7        **CALCULATIONS?**

8        **A.**    Yes. Attached to this testimony are schedules that calculate the surcharge anticipated to  
9        be implemented at the close of this proceeding and subsequent annual increases to that  
10       surcharge as additional eligible additions are placed in service during the following years.  
11       All surcharge forecasts are based on current construction cost estimates and timing,  
12       current annual depreciation rates and pro forma capital costs are used to calculate the  
13       revenue requirement requested in this rate case.

14  
15       Schedule PSS-1 shows the Step-One surcharge calculation and Schedules PSS-2, 3, 4, and  
16       5 show subsequent annual adjustments. As can be noted on these schedules, assuming the  
17       PS surcharge is authorized and implemented between 2005 and the end of 2009, Arizona  
18       American will spend over \$16 million to improve fire flows. As a result of this significant  
19       rate base increase at the end of that period, a PS surcharge of about 39% will be in place.

20  
21       The annual revenue requirement in terms of total dollars for the PS investments is  
22       projected to be as follows:

Step 1 (Including an estimate of the deferred amount)- \$581,830  
Step 2 - \$1,114,539  
Step 3 - \$1,346,108  
Step 4 - \$1,674,083  
Step 5 - \$2,124,487

As the calculations on the attached exhibits clearly demonstrate, these important service enhancements can be timely completed, with a gradual adjustment of customer bills, if the PS Surcharge is approved.

**Q. PLEASE DESCRIBE THE CALCULATIONS PRESENTED ON THE ATTACHED EXHIBITS IN GREATER DETAIL.**

**A.** The first step of calculating the PS surcharge is shown on Schedule PSS-1. That step identifies eligible net additions. Some of the fire-flow improvement projects will require the replacement of existing facilities and associated retirements will result. A forecast of retirement costs has been included in the rate base calculation. Again, the actual PS surcharge will be based solely on actual, verifiable, plant additions and associated retirements.

The calculation of additional annual depreciation expense resulting from completion of the fire flow improvement projects is shown in the second step on Schedule PSS-1. Eligible depreciation expense is calculated by applying the current annual depreciation accrual rates to the original cost of the eligible property, net of retirements.

1  
2 The increase in annual pre-tax return requirements is calculated in the third step on  
3 Schedule PSS-1. The actual surcharge calculation will be based on state and federal  
4 income tax rates and authorized returns approved in the final order for this general rate  
5 case. However, since that information will not be available until the Commission issues  
6 its final order, pro-forma costs were used on the attached schedules.

7  
8 Finally, all cost elements of the surcharge are combined in the last step shown on  
9 Schedule PSS-1 to arrive at the necessary revenue requirement. This step also includes  
10 the deferred revenue requirement associated with the requested accounting order. Almost  
11 one-half of the first year's revenue requirement is related to the deferral. The calculation  
12 steps shown on Schedule PSS-1 are repeated in Schedules PSS-2, 3, 4, and 5.

13  
14 **Q. WHAT DO YOU PROPOSE AS A METHOD OF RECOVERY FOR THE**  
15 **NECESSARY REVENUE REQUIREMENT RELATED TO THE PS**  
16 **INVESTMENTS?**

17 **A.** The Company proposes that the revenue requirement associated with the PS Investments  
18 be recovered 50 percent as a fixed monthly charge based on meter size, and the remaining  
19 50 percent be recovered as a quantity rate surcharge. The proposed quantity rate  
20 surcharge would be an inclining two-block surcharge for residential customers and a flat  
21 block rate for all other customers. The break point for the residential customers would be  
22 at 80 units per month. Pages 2 and 3 of Schedule PSS-1 show the proposed rate design

1           and resulting typical bill analysis based on the assumptions made on Schedule PSS-1,  
2           page 1.

3  
4           **Q.    WHY HAVE YOU PROPOSED A TWO-BLOCK SURCHARGE FOR**  
5           **RESIDENTIAL CUSTOMERS AND A FLAT-BLOCK SURCHARGE FOR**  
6           **OTHER CUSTOMERS?**

7           **A.    We have made this proposal for three reasons: 1) to promote conservation in the**  
8           **residential classification, 2) to provide some rate relief for smaller lower income**  
9           **customers, and 3) to provide an equitable, even recovery mechanism for the small number**  
10          **of non-residential customers in Paradise Valley. The flat block for non-residential is the**  
11          **most equitable since the increased fire protection benefits all equally. We did not propose**  
12          **the same for residential customers since we do not want to overly impact low-use, low-**  
13          **income, customers disproportionately to their income.**

14  
15          **Q.    PLEASE SUMMARIZE THE BENEFITS OF IMPLEMENTING THE**  
16          **SURCHARGE.**

17          **A.    As discussed by other witnesses, there are numerous reasons why approval of the PS**  
18          **surcharge advances the public interest. However, the major ratemaking benefits are:**  
19



- 1       • **Shared Attrition Risk** - Approval of a surcharge mechanism will provide Arizona-  
2       American with the assurance needed to move forward with completion of engineering  
3       work, securing rights of way, permitting and other preparation work needed for the timely  
4       completion of the planned construction projects. That assurance is also a vital part of  
5       securing the capital needed for completion of the fire flow improvement program.  
6
- 7       • **Potential Decrease in the Frequency of Rate Filings** -As this Commission is well aware,  
8       water utilities are the most capital intensive of all utility service providers. Completion of  
9       capital investment projects is one of the major factors that drive the need for water utilities  
10      to seek increases in base rates. Approval of a mechanism for the timely cost recovery for  
11      such a major capital investment undertaking will enable Arizona-American to postpone  
12      rate cases and their associated costs to all parties.  
13
- 14     • **Long-Term Viability of Paradise Valley Fire Flows** - Paradise Valley customers want  
15      fire flow improvements. Arizona-American wants to meet the demands of its customers  
16      and improve existing fire flows in an orderly and timely manner. Approval of the PS  
17      Surcharge will facilitate achievement of this service enhancement. If this problem must  
18      be addressed over a longer period of time, it will become more difficult and costly to  
19      finance the work that needs to be done now. In addition, the cost of future improvements  
20      needed as the distribution system continues to age, will simply keep increasing.  
21  
22

1  
2       **V.     HIGH-BLOCK USAGE SURCHARGES**

3       **Q.     WHAT IS ARIZONA-AMERICAN'S PROPOSAL IN REGARDS TO HIGH-**  
4       **BLOCK SURCHARGES?**

5       **A.**Arizona-American proposes to apply two separate non-cost of service-based surcharges on  
6       all units of water consumed by customers in the final block of the approved tariff. The  
7       two surcharges would be \$2.00 per unit of water consumed, up to the last five percent of  
8       the total consumption in the high block, and \$5.00 per unit of water consumed in the last  
9       five percent of the high block.

10  
11       **Q.     WHY IS ARIZONA-AMERICAN PROPOSING SUCH A TARIFF SURCHARGE?**

12       **A.**Arizona-American is proposing such surcharges to promote conservation and to relieve  
13       some of the cost of service on customers, including lower income customers in future  
14       proceedings.

15  
16       **Q.     HOW WOULD SUCH A SURCHARGE RELIEVE PART OF THE COST OF**  
17       **SERVICE ON LOWER INCOME CUSTOMERS?**

18       **A.**Arizona-American proposes that this surcharge be accounted for as a contribution in aid of  
19       construction. The funds collected through the surcharge would be recognized as a  
20       contribution toward plant, thereby reducing rate base. The reduction in rate base would  
21       lower the future revenue requirement, thereby reducing rates and assisting customers,  
22       including low-income customers.

1  
2 The Company has not estimated the contribution from these two high block charges in its  
3 ACRM and PS surcharge calculations in this case. However, the actual on-going  
4 contributions will be reflected in future PS or ACRM Step filings.  
5

6 **Q. IS THERE PRECEDENT FOR SUCH A SURCHARGE?**

7 A. The proposal is very similar in effect to existing low-income program, but with the  
8 additional benefit of also promoting conservation. Water use in Paradise Valley is  
9 historically high. Introducing rate incentives to conserve should promote conservation.  
10

11 **VI. PROPERTY SALES**

12 **Q. HAS ARIZONA-AMERICAN SOLD ANY UTILITY PROPERTY IN PARADISE**  
13 **VALLEY SINCE THE TIME OF ITS LAST RATE CASE IN 1998?**

14 A. Yes, Arizona American sold one piece of utility property in 2004. The Company sold the  
15 former operations/customer center on Casa Blanca. The property was no longer used and  
16 useful, as operations have been moved to other locations, including an office located on  
17 McDonald Drive.  
18

19 **Q. WHAT WAS THE SALES PRICE AND NET GAIN ON THE LAND?**

20 A. Below is the detail of the land sale:

|    |                       |              |
|----|-----------------------|--------------|
| 1. | Sales Price           | \$900,000.00 |
| 2. | Sellers Costs         | 56,337.50    |
| 3. | Original Cost of Land | 13,491.59    |
| 4. | Points                | 45,674.43    |
| 5. | TOTAL COSTS           | \$115,503.52 |
| 6. | Pre-Tax Gain          | \$784,496.48 |
| 7. | Taxes @ 38.60%        | \$302,185.64 |
| 8. | NET AFTER TAX GAIN    | \$481,680.84 |

**Q. DOES ARIZONA-AMERICAN PROPOSE TO SHARE THE NET GAIN ON THE SALE OF THE LAND WITH RATEPAYERS?**

**A.** Yes, consistent with Commission practice, Arizona-American proposes that the net gain on sale be shared 50-50 with ratepayers since this land was in rate base at the time of Paradise Valley's last rate case decision. Further, Arizona American proposes that the ratepayers' portion of the net gain of \$240,840.42 be provided to ratepayers as a monthly fixed cost surcredit based on meter size, and the surcredit be spread over 5 years. This proposal would produce a surcredit of \$0.54 per 5/8 inch meter per month for five years. All of the proposed monthly surcredits are as follows:

|            |         |
|------------|---------|
| 5/8 - inch | \$0.54  |
| 3/4 - inch | \$0.54  |
| 1 - inch   | \$0.92  |
| 1.5 - inch | \$1.78  |
| 2 - inch   | \$2.81  |
| 3 - inch   | \$5.40  |
| 4 - inch   | \$8.96  |
| 6 - inch   | \$17.82 |

1   **Q.    WHY IS THE COMPANY PROPOSING TO REFUND THE CUSTOMER NET**  
2       **GAIN PORTION OVER 5 YEARS.**

3   **A.    The land was in rate base over an extended period of time at a very small value,**  
4       **approximately \$14,000. Earnings on the land were probably close to \$2,000 annually.**  
5       **Because the annual cost to ratepayers was so negligible, spreading the extraordinary gain**  
6       **back to ratepayers over time was the most equitable method.**

7  
8  
9   **Q.    DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

10   **A.    Yes.**

**Arizona American Water Company  
Paradise Valley District  
Authorized vs. Earned Returns 1991 - 2001  
(in Thousands)**

|                                | 1991    | 1992     | 1993     | 1994     | 1995     | 1996     | 1997     | 1998     | 1999     | 2000     | 2001     | Total      |
|--------------------------------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|------------|
| AZ-American operating income   | \$ 165  | \$ 27    | \$ 181   | \$ 292   | \$ 283   | \$ 295   | \$ 671   | \$ 694   | \$ 1,047 | \$ 1,331 | \$ 1,395 |            |
| AZ-American net rate base      | 1,783   | 1,901    | 3,886    | 4,119    | 4,911    | 8,690    | 9,451    | 10,024   | 12,319   | 12,213   | 11,835   |            |
| Earned ROR                     | 9.2%    | 1.4%     | 4.7%     | 7.1%     | 5.8%     | 3.4%     | 7.1%     | 6.9%     | 8.5%     | 10.9%    | 11.8%    |            |
| Authorized ROR                 | 11.9%   | 10.4%    | 9.7%     | 9.8%     | 9.4%     | 9.1%     | 9.6%     | 10.0%    | 9.7%     | 9.3%     | 9.3%     |            |
| Earnings at authorized ROR     | 212     | 198      | 377      | 406      | 462      | 791      | 909      | 1,001    | 1,190    | 1,140    | 1,105    |            |
| Annual over / (under) earnings | \$ (47) | \$ (170) | \$ (195) | \$ (113) | \$ (180) | \$ (496) | \$ (238) | \$ (307) | \$ (143) | \$ 191   | \$ 291   | \$ (1,410) |
| AZ-American net income         | 155     | 15       | 10       | 205      | 111      | 221      | 660      | 567      | 619      | 557      | (50)     |            |
| Average common equity          | 1,931   | 1,918    | 1,891    | 1,924    | 1,963    | 5,489    | 9,180    | 7,630    | 6,032    | 6,151    | 6,047    |            |
| Earned ROE                     | 8.0%    | 0.8%     | 0.5%     | 10.7%    | 5.7%     | 4.0%     | 7.2%     | 7.4%     | 10.3%    | 9.1%     | -0.8%    |            |
| Authorized ROE                 | 18.2%   | 12.7%    | 10.3%    | 11.0%    | 11.0%    | 11.0%    | 11.0%    | 11.0%    | 11.0%    | 11.0%    | 11.0%    |            |
| Earnings at authorized ROE     | 351     | 244      | 194      | 212      | 216      | 604      | 1,010    | 839      | 664      | 677      | 665      |            |
| Annual over / (under) earnings | (196)   | (229)    | (184)    | (6)      | (105)    | (383)    | (350)    | (272)    | (44)     | (120)    | (715)    | (2,605)    |

ARIZONA AMERICAN WATER  
PARADISE VALLEY OPERATING DISTRICT  
PUBLIC SAFETY SURCHARGE (PSS)

SCHEDULE PSS-1  
PAGE 1 OF 3  
XX/1/2006

EFFECTIVE DATE

**2005/2006 ELIGIBLE NET ADDITIONS - STEP 1**

| PROJECT<br>NUMBER         | DESCRIPTION                     | ADDITIONS        | RETIREMENTS   | NET<br>ADDITIONS |
|---------------------------|---------------------------------|------------------|---------------|------------------|
| <b>2005/2006 Projects</b> |                                 |                  |               |                  |
| 1.                        | Jackrabbit/Invergordon 12" Main | \$1,818,226      | \$9,091       | \$1,809,135      |
| 2.                        | 8 16" WM McDonald & 44th Street | 667,000          | 3,335         | 663,665          |
| 3.                        | Fire Hydrants                   | 200,000          | 1,000         | 199,000          |
| 4.                        | Contingency (on project 8 only) | 66,700           | 334           | 63,365           |
|                           |                                 | <u>2,751,926</u> | <u>13,760</u> | <u>2,735,165</u> |

**DEPRECIATION**

| PROJECT<br>NUMBER                          | DESCRIPTION       | ANNUAL<br>DEPRECIATION<br>RATE | ADDITIONS          | ANNUAL<br>DEPRECIATION |
|--|-------------------|--------------------------------|--------------------|------------------------|
| <b>Depreciation on 2005/2006 Additions</b> |                   |                                |                    |                        |
| 5.   | Main Replacements | 2.52%                          | 2,536,165          | 63,911                 |
| 6.   | Fire Hydrants     | 2.10%                          | 199,000            | 4,179                  |
| 7.   | Totals            |                                | <u>\$2,735,165</u> | <u>\$68,090</u>        |

**REVENUE REQUIREMENT RATE**

|     | Capital | Amount<br>(000's)    | Percent        | Capital<br>Cost | Weighted<br>Cost Rate | Revenue<br>Multiplier | Revenue<br>Requirement<br>Factor |
|-----|---------|----------------------|----------------|-----------------|-----------------------|-----------------------|----------------------------------|
| 8.  | Debt    | \$198,791,428        | 63.27%         | 5.40%           | 3.42%                 | 1.0000                | 3.42%                            |
| 9.  | Equity  | 115,410,356          | 36.73%         | 12.00%          | 4.41%                 | 1.6300                | 7.18%                            |
| 10. | Total   | <u>\$314,201,784</u> | <u>100.00%</u> |                 | <u>7.82%</u>          |                       | <u>10.60%</u>                    |

**2006 (STEP 1) SURCHARGE CALCULATION**

|     |   |                    |
|-----|---|--------------------|
| 11. | 2005/2006 (Step 1) - Eligible Net Additions   | <u>\$2,735,165</u> |
| 12. | Net Rate Base for 2006 (Step 1) PSS Calculation   | <u>\$2,735,165</u> |
| 13. | Revenue Requirement Rate  | <u>10.60%</u>      |
| 14. | Pre-Tax Return on Net Rate Base   | \$289,959          |
| 15. | Annual Depreciation Expense on Eligible Investments   | 68,090             |
| 16. | Deferral of Gross Return on 75% of projects (assumes 9-05 acct. order and 7-06 final order) | 181,224            |
| 17. | Deferral of Depreciation on 75% of projects (assumes 9-05 acct. order and 7-06 final order) | 42,556             |
| 18. | Total PSS Costs   | <u>\$581,830</u>   |
| 19. | Minimum Revenue   | \$290,915          |
| 20. | Commodity Revenue   | \$290,915          |
| 21. | Base Rate Revenue to Be Collected From during Step 1  | <u>\$5,400,000</u> |
| 22. | PSS As Percentage of Bills Rendered During Step 1   | <u>10.77%</u>      |
| 23. | Impact on a \$65 Monthly Bill   | <u>\$7.00</u>      |

ARIZONA AMERICAN WATER  
PARADISE VALLEY OPERATING DISTRICT  
PUBLIC SAFETY SURCHARGE (PSS)

SCHEDULE PSS-1  
PAGE 2 OF 3  
EFFECTIVE DATE XX/1/2006

**MONTHLY MINIMUM SURCHARGE CALCULATION - STEP 1**

| Meter Size            | Monthly Minimum | Minimum Multiples | 2004           | Equivalent Meters | Fixed Increment |              |
|-----------------------|-----------------|-------------------|----------------|-------------------|-----------------|--------------|
|                       |                 |                   | Avg. Customers |                   | Monthly         | Annual Total |
| 1. 5/8 - inch         | \$ 8.41         | 1.0               | 2390           | 2,390             | 3.28            | \$ 94,031    |
| 2. 3/4 - inch         | \$ 8.74         | 1.0               | 17             | 18                | 3.41            | \$ 695       |
| 3. 1 - inch           | \$ 14.01        | 1.7               | 1957           | 3,260             | 5.46            | \$ 128,264   |
| 4. 1.5 - inch         | \$ 28.02        | 3.3               | -              | -                 | 10.92           | \$ -         |
| 5. 2 - inch           | \$ 44.83        | 5.3               | 267            | 1,423             | 17.48           | \$ 55,996    |
| 6. 3 - inch           | \$ 84.06        | 10.0              | 12             | 120               | 32.77           | \$ 4,719     |
| 7. 4 - inch           | \$ 140.10       | 16.7              | 1              | 17                | 54.62           | \$ 655       |
| 8. 6 - inch           | \$ 280.20       | 33.3              | 5              | 167               | 109.24          | \$ 6,554     |
| 9. Total              |                 |                   | 4,649          | 7,394.23          |                 |              |
| 10. Times 12 Months   |                 |                   |                | 88,730.77         |                 |              |
| 11. Minimum Surcharge |                 |                   |                |                   | \$ 3.28         | \$ 290,915   |

**COMMODITY SURCHARGE CALCULATION - STEP 1**

|   | Avg. Consumption | (000 Gallons) | Customers |
|---|------------------|---------------|-----------|
| 12. Total Company                                       |                  | 3,213,392     | 4,649     |
| 13. Residential   |                  | 2,281,374     | 4,342     |
| 14. Non Residential                                     |                  | 932,018       | 307       |
| 15. Non Residential Commodity Surcharge (per 1,000 Gal) |                  | \$ 0.0792     |           |

|                              | Per Customer (000 Gal.) | Block 1 0 - 25 | Block 2 26 - 80 | Block 3 > 80 |
|------------------------------|-------------------------|----------------|-----------------|--------------|
| 16. Avg. Monthly Consumption | 43.8                    | 18.4           | 15.5            | 9.9          |

|  | Block 1 0 - 80 | Block 2 > 80 |
|--|----------------|--------------|
| 17. Residential Surcharge (per 1,000 Gal.) | \$0.0792       | \$0.1500     |

|                           | Monthly   | Annual Total |
|---------------------------|-----------|--------------|
| 18. Residential - Block 1 | \$ 11,650 | \$ 139,798   |
| 19. Residential - Block 2 | \$ 6,445  | \$ 77,337    |
| 20. Non Residential       | \$ 6,148  | \$ 73,780    |
| 21. Total                 | \$ 6,148  | \$ 290,915   |

|  |            |
|--|------------|
| 22. Total Monthly Minimum & Commodity Revenue - STEP 1 | \$ 581,830 |
|--|------------|



ARIZONA AMERICAN WATER  
PARADISE VALLEY OPERATING DISTRICT  
PUBLIC SAFETY SURCHARGE (PSS)

SCHEDULE PSS-1  
PAGE 3 OF 3  
EFFECTIVE DATE XX/1/2006

PSS TYPICAL 5/8 INCH RESIDENTIAL BILL ANALYSIS - STEP 1

|     | Gallons<br>Consumption      | Present<br>Rates | Proposed<br>Rates | Percent<br>Increase |
|-----|-----------------------------|------------------|-------------------|---------------------|
| 1.  | -                           |                  |                   |                     |
| 2.  | 1,000                       | \$ 9.14          | \$ 12.50          | 36.7%               |
| 6.  | 5,000                       | \$ 12.06         | \$ 15.73          | 30.5%               |
| 11. | 10,000                      | \$ 15.71         | \$ 19.78          | 25.9%               |
| 16. | 15,000                      | \$ 19.36         | \$ 23.83          | 23.1%               |
| 17. | 20,000                      | \$ 23.01         | \$ 27.87          | 21.1%               |
| 18. | 25,000                      | \$ 26.66         | \$ 31.92          | 19.7%               |
| 19. | 30,000                      | \$ 35.06         | \$ 40.71          | 16.1%               |
| 20. | 35,000                      | \$ 43.46         | \$ 49.51          | 13.9%               |
| 21. | 40,000                      | \$ 51.86         | \$ 58.31          | 12.4%               |
| 22. | 45,000                      | \$ 60.26         | \$ 67.10          | 11.4%               |
| 23. | 50,000                      | \$ 68.66         | \$ 75.90          | 10.5%               |
| 24. | 55,000                      | \$ 77.06         | \$ 84.69          | 9.9%                |
| 25. | 60,000                      | \$ 85.46         | \$ 93.49          | 9.4%                |
| 26. | 65,000                      | \$ 93.86         | \$ 102.28         | 9.0%                |
| 27. | 70,000                      | \$ 102.26        | \$ 111.08         | 8.6%                |
| 28. | 75,000                      | \$ 110.66        | \$ 119.88         | 8.3%                |
| 29. | 80,000                      | \$ 119.06        | \$ 128.67         | 8.1%                |
| 30. | 85,000                      | \$ 129.91        | \$ 140.27         | 8.0%                |
| 31. | 90,000                      | \$ 140.76        | \$ 151.87         | 7.9%                |
| 32. | 95,000                      | \$ 151.61        | \$ 163.47         | 7.8%                |
| 33. | 100,000                     | \$ 162.46        | \$ 175.07         | 7.8%                |
| 34. | 105,000                     | \$ 173.31        | \$ 186.67         | 7.7%                |
| 35. | 110,000                     | \$ 184.16        | \$ 198.27         | 7.7%                |
| 36. | 115,000                     | \$ 195.01        | \$ 209.87         | 7.6%                |
| 37. | 120,000                     | \$ 205.86        | \$ 221.47         | 7.6%                |
| 38. | 125,000                     | \$ 216.71        | \$ 233.07         | 7.5%                |
| 39. | 130,000                     | \$ 227.56        | \$ 244.67         | 7.5%                |
| 40. | 135,000                     | \$ 238.41        | \$ 256.27         | 7.5%                |
| 41. | Avg. Consumption (000 Gal.) | 43.8             | 43.8              |                     |
| 42. | Average Residential Bill    | \$ 58.24         | \$ 64.99          | 11.6%               |
| 43. | Minimum Rate                | \$ 8.41          | \$ 11.69          | 39.0%               |
| 44. | Block 1 (0 - 25) Commodity  | 0.73             | 0.81              | 10.8%               |
| 45. | Block 2 (26 - 80) Commodity | 1.68             | 1.76              | 4.7%                |
| 46. | Block 3 (> 80) Commodity    | 2.17             | 2.32              | 6.9%                |

ARIZONA AMERICAN WATER  
PARADISE VALLEY OPERATING DISTRICT  
PUBLIC SAFETY SURCHARGE (PSS)

SCHEDULE PSS-2  
EFFECTIVE DATE XX/1/2007

**2006/2007 ELIGIBLE NET ADDITIONS - STEP 2**

| PROJECT<br>NUMBER         | DESCRIPTION                     | ADDITIONS        | RETIREMENTS   | NET<br>ADDITIONS |
|---------------------------|---------------------------------|------------------|---------------|------------------|
| <b>2006/2007 Projects</b> |                                 |                  |               |                  |
| 1.                        | 1 16" WM Lincoln/New CCBPS      | \$1,255,570      | \$6,278       | \$1,249,292      |
| 2.                        | 3 16" WM Tatum                  | 905,510          | 4,528         | 900,982          |
| 3.                        | 3 Fire Hydrants - Tatum         | 30,000           | 150           | 29,850           |
| 4.                        | 9 8" WM - Tatum                 | 113,850          | 569           | 113,281          |
| 5.                        | 2 BPS CVWH/8' WM Highland Drive | 382,375          | 1,912         | 380,463          |
| 6.                        | 4 8"WM - S.CC zone              | 301,731          | 1,509         | 300,222          |
| 7.                        | 4 Fire Hydrants - S.CC zone     | 25,000           | 125           | 24,875           |
| 8.                        | 5 Replace 4" WM/CWSHPS          | 613,813          | 3,069         | 610,744          |
| 9.                        | 5 Fire Hydrants - CWSHPS        | 25,000           | 125           | 24,875           |
| 10.                       | 6 Stone Cayon/Racquet Club      | 577,875          | 2,889         | 574,986          |
| 11.                       | 10 8" WM - N. CC zone           | 306,763          | 1,534         | 305,229          |
| 12.                       | 1A 1.5MG Reservoir              | 750,000          | 3,750         | 746,250          |
| 13.                       | Contingency                     | 528,749          | 2,644         | 526,105          |
|                           |                                 | <u>5,816,236</u> | <u>29,081</u> | <u>5,787,155</u> |

**DEPRECIATION**

| PROJECT<br>NUMBER                          | DESCRIPTION          | ANNUAL<br>DEPRECIATION<br>RATE | ADDITIONS          | ANNUAL<br>DEPRECIATION |
|--|----------------------|--------------------------------|--------------------|------------------------|
| <b>Depreciation on 2006/2007 Additions</b> |                      |                                |                    |                        |
| 14.  | Main Replacements    | 2.52%                          | \$4,961,305        | 125,025                |
| 15.  | Hydrant Replacements | 2.10%                          | 79,600             | 1,672                  |
| 16.  | Reservoirs           | 3.15%                          | 746,250            | 23,507                 |
| 17.  | Totals               |                                | <u>\$5,787,155</u> | <u>\$150,203</u>       |

**REVENUE REQUIREMENT RATE**

|     | Capital | Amount<br>(000's)    | Percent        | Capital<br>Cost | Weighted<br>Cost Rate | Revenue<br>Multiplier | Revenue<br>Requirement<br>Factor |
|-----|---------|----------------------|----------------|-----------------|-----------------------|-----------------------|----------------------------------|
| 18. | Debt    | \$198,791,428        | 63.27%         | 5.40%           | 3.42%                 | 1.0000                | 3.42%                            |
| 19. | Equity  | 115,410,356          | 36.73%         | 12.00%          | 4.41%                 | 1.6300                | 7.18%                            |
| 20. | Total   | <u>\$314,201,784</u> | <u>100.00%</u> |                 | <u>7.82%</u>          |                       | <u>10.60%</u>                    |

**2007 (STEP 2) SURCHARGE CALCULATION**

|     |  |                    |
|-----|--|--------------------|
| 21. | 2005/2006 (Step 1) - Eligible Net Additions                      | \$2,735,165        |
| 22. | 2006/2007 (Step 2) - Eligible Net Additions                      | \$5,787,155        |
| 23. | Less: Accumulated Depreciation On 2005/2006 Additions - One Year | 68,090             |
| 24. | Net Rate Base for 2007 (Step 2) PSS Calculation                  | <u>\$8,454,229</u> |
| 25. | Revenue Requirement Rate   | <u>10.60%</u>      |
| 26. | Pre-Tax Return on Net Rate Base                                  | \$896,246          |
| 27. | Annual Depreciation Expense on Eligible Investments              | 218,294            |
| 28. | Total PSS Costs  | <u>\$1,114,539</u> |
| 29. | Minimum Revenue  | \$557,270          |
| 30. | Commodity Revenue  | \$557,270          |
| 31. | Base Rate Revenue to Be Collected During Step 2                  | <u>\$5,400,000</u> |
| 32. | PSS As Percentage of Bills Rendered During Step 2                | <u>20.64%</u>      |
| 33. | Impact on a \$65 Monthly Bill                                    | <u>\$13.42</u>     |
| 34. | Less: Surcharge Already Included on the Monthly Bill             | <u>7.00</u>        |
| 35. | Incremental Increase in Monthly Surcharge                        | <u>\$6.41</u>      |

ARIZONA AMERICAN WATER  
PARADISE VALLEY OPERATING DISTRICT  
PUBLIC SAFETY SURCHARGE (PSS)

SCHEDULE PSS-3  
EFFECTIVE DATE XX/1/2008

2007/2008 ELIGIBLE NET ADDITIONS - STEP 3

| PROJECT<br>NUMBER         | DESCRIPTION                            | ADDITIONS          | RETIREMENTS    | NET<br>ADDITIONS   |
|---------------------------|--|--------------------|----------------|--------------------|
| <b>2007/2008 Projects</b> |  |                    |                |                    |
| 1.                        | 7 8" WM Clearwater Parkway             | \$56,925           | \$285          | \$56,640           |
| 2.                        | 8 16" WM McDonald & 44th Street        | 511,520            | 2,558          | 508,962            |
| 3.                        | 8 Fire Hydrants McDonald & 44th St     | 200,000            | 1,000          | 199,000            |
| 4.                        | 10 12" WM N. CC zone                   | 181,125            | 906            | 180,219            |
| 5.                        | 10 Fire Hydrants N. CC zone            | 25,000             | 125            | 24,875             |
| 6.                        | 11 Las Brisas Fire Pump and 8" WM      | 392,438            | 1,962          | 392,438            |
| 7.                        | 11 Fire Hydrants - Las Brisas          | 25,000             | 125            | 24,875             |
| 8.                        | 12A 12" and 8" WM serving Tatum Canyon | 387,090            | 1,935          | 385,155            |
| 9.                        | Contingency                            | 177,910            | 890            | 177,020            |
| 10.                       | Totals                                 | <u>\$1,957,008</u> | <u>\$9,785</u> | <u>\$1,949,185</u> |

DEPRECIATION

| PROJECT<br>NUMBER | DESCRIPTION          | ANNUAL<br>DEPRECIATION<br>RATE | ADDITIONS          | ANNUAL<br>DEPRECIATION |
|-------------------|----------------------|--------------------------------|--------------------|------------------------|
| 11.               | Main Replacements    | 2.52%                          | \$1,700,435        | 42,851                 |
| 12.               | Hydrant Replacements | 2.10%                          | 248,750            | 5,224                  |
| 13.               | Totals               |                                | <u>\$1,949,185</u> | <u>\$48,075</u>        |

REVENUE REQUIREMENT RATE

|     | Capital | Amount<br>(000's)    | Percent        | Capital<br>Cost | Weighted<br>Cost Rate | Revenue<br>Multiplier | Revenue<br>Requirement<br>Factor |
|-----|---------|----------------------|----------------|-----------------|-----------------------|-----------------------|----------------------------------|
| 14. | Debt    | \$198,791,428        | 63.27%         | 5.40%           | 3.42%                 | 1.0000                | 3.42%                            |
| 15. | Equity  | 115,410,356          | 36.73%         | 12.00%          | 4.41%                 | 1.6300                | 7.18%                            |
| 16. | Total   | <u>\$314,201,784</u> | <u>100.00%</u> |                 | <u>7.82%</u>          |                       | <u>10.60%</u>                    |

2008 (STEP 3) SURCHARGE CALCULATION

|     |   |                     |
|-----|---|---------------------|
| 17. | 2005/2006 (Step 1) - Eligible Net Additions                               | \$2,735,165         |
| 18. | 2006/2007 (Step 2) - Eligible Net Additions                               | 5,787,155           |
| 19. | 2007/2008 - (Step 3) Eligible Net Additions                               | 1,949,185           |
| 20. | Less: Accumulated Depreciation On 2005/2006 (Step 1) Additions ( 2 years) | 136,181             |
| 21. | Accumulated Depreciation on 2006/2007 (Step 2) Additions (1 Year)         | 150,203             |
| 22. | Net Rate Base for 2008 (Step 3) PSS Calculation                           | <u>\$10,185,120</u> |
| 23. | Revenue Requirement Rate  | <u>10.60%</u>       |
| 24. | Pre-Tax Return on Net Rate Bases  | \$1,079,740         |
| 25. | Annual Depreciation Expense on Eligible Investments                       | 266,368             |
| 26. | Total PSS Costs   | <u>\$1,346,108</u>  |
| 27. | Minimum Revenue   | \$673,054           |
| 28. | Commodity Revenue   | \$673,054           |
| 29. | Base Rate Revenue to Be Collected during Step 3                           | <u>\$5,400,000</u>  |
| 30. | PSS As Percentage of Bills Rendered During Step 3                         | <u>24.93%</u>       |
| 31. | Impact on a \$65 Monthly Bill   | \$16.20             |
| 32. | Less: Surcharge Already Included on the Monthly Bill                      | 13.42               |
| 33. | Incremental Increase in Monthly Surcharge                                 | <u>\$2.79</u>       |

ARIZONA AMERICAN WATER  
PARADISE VALLEY OPERATING DISTRICT  
PUBLIC SAFETY SURCHARGE (PSS)

SCHEDULE PSS-4  
EFFECTIVE DATE XX/1/2009

2008/2009 ELIGIBLE NET ADDITIONS - STEP 4

| PROJECT            |                               |             |             | NET         |
|--------------------|-------------------------------|-------------|-------------|-------------|
| NUMBER             | DESCRIPTION                   | ADDITIONS   | RETIREMENTS | ADDITIONS   |
| 2008/2009 Projects |                               |             |             |             |
| 1.                 | Reevaluation                  | \$100,000   | \$500       | \$99,500    |
| 2.                 | 4" Main Replacements          | 1,536,975   | 7,685       | 1,529,290   |
| 3.                 | Replace 50 Fire Hydrants      | 250,000     | 1,250       | 248,750     |
| 4.                 | 16 8" Water Main - Zone North | 480,700     | 2,404       | 478,297     |
| 5.                 | Valve Study                   | 120,000     | 600         | 119,400     |
| 6.                 | Contingency                   | 248,768     | 1,244       | 247,524     |
| 7.                 | Totals                        | \$2,736,443 | \$13,682    | \$2,722,760 |

DEPRECIATION

| PROJECT<br>NUMBER | DESCRIPTION          | ANNUAL<br>DEPRECIATION<br>RATE | ADDITIONS          | ANNUAL<br>DEPRECIATION |
|-------------------|----------------------|--------------------------------|--------------------|------------------------|
|                   |                      |                                |                    |                        |
| 8.                | Main Replacements    | 2.52%                          | \$2,474,010        | 62,345                 |
| 9.                | Hydrant Replacements | 2.10%                          | 248,750            | 5,224                  |
| 10.               | Totals               |                                | <u>\$2,722,760</u> | <u>\$67,569</u>        |

REVENUE REQUIREMENT RATE

|     | Capital | Amount<br>(000's)    | Percent        | Capital<br>Cost | Weighted<br>Cost Rate | Revenue<br>Multiplier | Revenue<br>Requirement<br>Factor |
|-----|---------|----------------------|----------------|-----------------|-----------------------|-----------------------|----------------------------------|
| 11. | Debt    | \$198,791,428        | 63.27%         | 5.40%           | 3.42%                 | 1.0000                | 3.42%                            |
| 12. | Equity  | 115,410,356          | 36.73%         | 12.00%          | 4.41%                 | 1.6300                | 7.18%                            |
| 13. | Total   | <u>\$314,201,784</u> | <u>100.00%</u> |                 | <u>7.82%</u>          |                       | <u>10.60%</u>                    |

2009 (STEP 4) SURCHARGE CALCULATION

|     |   |                     |
|-----|---|---------------------|
| 14. | 2005/2006 (step 1) - Eligible Net Additions                               | \$2,735,165         |
| 15. | 2006/2007 (Step 2) - Eligible Net Additions                               | \$5,787,155         |
| 16. | 2007/2008 (Step 3) - Eligible Net Additions                               | 1,949,185           |
| 17. | 2008/2009 (Step 4) - Eligible Net Additions                               | 2,722,760           |
| 18. | Less: Accumulated Depreciation On 2005/2006 (Step 1) Additions ( 3 years) | 204,271             |
| 19. | Accumulated Depreciation on 2006/2007 (Step 2) Additions (2 years)        | 300,407             |
| 20. | Accumulated Depreciation on 2007/2008 (Step 3) Additions (1 year)         | 48,075              |
| 21. | Net Rate Base for 2009 (Step 4) PSS Calculation                           | <u>\$12,641,512</u> |
| 22. | Revenue Requirement Rate  | <u>10.60%</u>       |
| 23. | Pre-Tax Return on Net Rate Bases  | \$1,340,146         |
| 24. | Annual Depreciation Expense on Eligible Investments                       | 333,937             |
| 25. | Total PSS Costs   | <u>\$1,674,083</u>  |
| 26. | Minimum Revenue   | \$837,041           |
| 27. | Commodity Revenue   | \$837,041           |
| 28. | Base Rate Revenue to Be Collected during Step 4                           | <u>\$5,400,000</u>  |
| 29. | PSS As Percentage of Bills Rendered During Step 4                         | <u>31.00%</u>       |
| 30. | Impact on a \$65 Monthly Bill   | \$20.15             |
| 31. | Less: Surcharge Already Included on the Monthly Bill                      | 16.20               |
| 32. | Incremental Increase in Monthly Surcharge                                 | <u>\$3.95</u>       |

ARIZONA AMERICAN WATER  
PARADISE VALLEY OPERATING DISTRICT  
PUBLIC SAFETY SURCHARGE (PSS)

SCHEDULE PSS-5  
EFFECTIVE DATE XX/1/2010

2009/2010 ELIGIBLE NET ADDITIONS - STEP 5

| PROJECT<br>NUMBER         | DESCRIPTION                          | ADDITIONS          | RETIREMENTS     | NET<br>ADDITIONS   |
|---------------------------|--------------------------------------|--------------------|-----------------|--------------------|
| <b>2009/2010 Projects</b> |                                      |                    |                 |                    |
| 1.                        | 13 8"6" cactus Wren/Sierra Vista     | \$359,318          | \$1,797         | \$357,521          |
| 2.                        | 14 8" WM Invergordon                 | 538,085            | 2,690           | 535,395            |
| 3.                        | 15 8"WM Chaparral                    | 414,000            | 2,070           | 411,930            |
| 4.                        | 15 Fire Hydrants - Chaparral         | 70,000             | 350             | 69,650             |
| 5.                        | 17B 8"6" Keim/Bethany Home area      | 208,840            | 1,044           | 207,796            |
| 6.                        | 17B Fire Hydrants Keim/Bethany Home  | 10,000             | 50              | 9,950              |
| 7.                        | 18 Club Estates/Glen Drive Fire Pump | 614,790            | 3,074           | 611,716            |
| 8.                        | 19 Stone Canyon 4" WM Replacements   | 395,456            | 1,977           | 393,479            |
| 9.                        | 19 Fire Hydrants - Stone Canyon      | 40,000             | 200             | 39,800             |
| 10.                       | 4" Main Replacements                 | 638,699            | 3,193           | 635,506            |
| 11.                       | Fire Hydrants                        | 100,000            | 500             | 99,500             |
| 12.                       | Contingency                          | 338,919            | 1,695           | 337,224            |
| 13.                       | Totals                               | <u>\$3,728,107</u> | <u>\$18,641</u> | <u>\$3,709,466</u> |

DEPRECIATION

| PROJECT<br>NUMBER | DESCRIPTION          | ANNUAL<br>DEPRECIATION<br>RATE | ADDITIONS          | ANNUAL<br>DEPRECIATION |
|-------------------|----------------------|--------------------------------|--------------------|------------------------|
| 14.               | Main Replacements    | 2.52%                          | \$3,490,566        | 87,962                 |
| 15.               | Hydrant Replacements | 2.10%                          | 218,900            | 4,597                  |
| 16.               | Totals               |                                | <u>\$3,709,466</u> | <u>\$92,559</u>        |

REVENUE REQUIREMENT RATE

|     | Capital | Amount<br>(000's)    | Percent        | Capital<br>Cost | Weighted<br>Cost Rate | Revenue<br>Multiplier | Revenue<br>Requirement<br>Factor |
|-----|---------|----------------------|----------------|-----------------|-----------------------|-----------------------|----------------------------------|
| 17. | Debt    | \$198,791,428        | 63.27%         | 5.40%           | 3.42%                 | 1.0000                | 3.42%                            |
| 19. | Equity  | 115,410,356          | 36.73%         | 12.00%          | 4.41%                 | 1.6300                | 7.18%                            |
| 20. | Total   | <u>\$314,201,784</u> | <u>100.00%</u> |                 | <u>7.82%</u>          |                       | <u>10.60%</u>                    |

2010(STEP 5) SURCHARGE CALCULATION

|     |   |                     |
|-----|---|---------------------|
| 21. | 2005/2006 (Step 1) - Eligible Net Additions                               | \$2,735,165         |
| 22. | 2006/2007 (Step 2) - Eligible Net Additions                               | \$5,787,155         |
| 23. | 2007/2008 (Step 3) - Eligible Net Additions                               | 1,949,185           |
| 24. | 2008/2009 (Step 4) - Eligible Net Additions                               | 2,722,760           |
| 25. | 2009/2010 (Step 5) - Eligible Net Additions                               | 3,709,466           |
| 26. | Less: Accumulated Depreciation On 2005/2006 (Step 1) Additions ( 4 years) | 272,361             |
| 27. | Accumulated Depreciation on 2006/2007 (Step 2) Additions (3 years)        | 450,610             |
| 28. | Accumulated Depreciation on 2007/2008 (Step 3) Additions (2 years)        | 96,149              |
| 29. | Accumulated Depreciation on 2008/2009 (Step 4) Additions ( 1 year)        | 67,569              |
| 30. | Net Rate Base for 2010 (Step 5) PSS Calculation                           | <u>\$16,017,041</u> |
| 31. | Revenue Requirement Rate  | <u>10.60%</u>       |
| 32. | Pre-Tax Return on Net Rate Bases  | \$1,697,991         |
| 33. | Annual Depreciation Expense on Eligible Investments                       | 426,496             |
| 34. | Total PSS Costs   | <u>\$2,124,487</u>  |
| 35. | Minimum Revenue   | \$1,062,243         |
| 36. | Commodity Revenue   | \$1,062,243         |
| 37. | Base Rate Revenue to Be Collected During Step 5                           | <u>\$5,400,000</u>  |
| 38. | PSS As Percentage of Bills Rendered During Step 5                         | <u>39.34%</u>       |
| 39. | Impact on a \$65 Monthly Bill   | \$25.57             |
| 40. | Less: Surcharge Already Included on the Monthly Bill                      | 20.15               |
| 41. | Incremental Increase in Monthly Surcharge                                 | <u>\$5.42</u>       |

EXHIBIT

A-20

admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
INC., AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON FOR  
UTILITY SERVICE BY ITS PARADISE VALLEY  
WATER DISTRICT.

DOCKET NO. W-01303A-05-

DIRECT TESTIMONY  
OF  
DAVID L. WEBER  
ON BEHALF OF  
ARIZONA AMERICAN WATER COMPANY  
JUNE 3, 2005

**DIRECT TESTIMONY  
OF  
DAVID L. WEBER  
ON BEHALF OF  
ARIZONA AMERICAN WATER COMPANY  
JUNE 3, 2005**

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1           **I.     INTRODUCTION AND QUALIFICATIONS**

2       **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3       A.   My name is David L. Weber and my business address is 3906 Church Road, Mount Laurel,  
4           NJ 08054.

5  
6       **Q.   BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7       A.   I am employed by American Water Shared Services Center ("SSC") as a Senior Financial  
8           Analyst in the Rates and Regulation Department. The SSC is an at-cost service provider to  
9           the operations of the American Water system.

10  
11       **Q.   PLEASE BRIEFLY OUTLINE YOUR RESPONSIBILITIES AS A SENIOR**  
12       **FINANCIAL ANALYST.**

13       A.   As a Senior Financial Analyst, I am responsible for preparing testimony, exhibits, and work-  
14           papers in support of rate applications on behalf of the operating subsidiaries in the American  
15           Water System.

16  
17       **Q.   DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

18       A.   I received a Bachelor of Arts degree in Accounting from Cedarville University in 1992 and  
19           a Master of Business Administration degree in Finance from Drexel University in 2000. In  
20           March 2004, I began studying toward a Doctor of Business Administration degree in  
21           Accounting at Anderson University.

22



1   **Q.   PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

2   A.   From July 1992 to April 1994 I was employed as an Accountant by the public accounting  
3       firms of George S. Olive & Co and Brandy, Ware, & Schoenfeld, Inc. in Richmond,  
4       Indiana. In May 1994, I began employment in the American Water System as an  
5       Accountant at New Jersey-American Water Company (NJAWC) in Haddon Heights, New  
6       Jersey. In July 1995, I was promoted to Senior Accountant and in January 1997 to Senior  
7       Financial Analyst. In that position at NJAWC I was responsible for preparing work papers  
8       and exhibits for rate applications. In May 1999, I transferred to the American Water  
9       corporate office in Voorhees, New Jersey, where I was responsible for various financial-  
10      analysis and cash-management duties. In August 2001, I transferred to the SSC, where I  
11      assumed my present responsibilities.

12  
13   **Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

14   A.   The purpose of my testimony is to support Schedules C and E in this general rate case  
15       application as required by A.A.C. R14-2-103 for Class A Water Utilities. My testimony  
16       will focus primarily on certain pro-forma adjustments enumerated on Schedule C-2. The  
17       adjustments I am supporting on Schedule C-2 are Operating Revenues and Operations and  
18       Maintenance Expenses, and Payroll Taxes.

**II. ADJUSTMENTS TO OPERATIONS EXPENSE**

**Q. PLEASE EXPLAIN THE PREMISE FOR THE \$225,395 ADJUSTMENT TO OPERATIONS EXPENSE CONTAINED IN NOTE (B) ON SCHEDULE C-2.**

**A.** The adjustment is to annualize and normalize various Operations Expenses in the test year for known and measurable changes, exclude expenses that should not be borne by the ratepayer, and include proposed new costs and charges.

**Q. PLEASE BRIEFLY DESCRIBE WHAT WOULD CONSTITUTE KNOWN AND MEASURABLE CHANGES.**

**A.** Known and measurable changes are activities or costs incurred by the Company not included in the recorded test year yet there is a high degree of certainty the activity or cost will occur and the amount known.

**Q. PLEASE DESCRIBE THE OPERATING EXPENSE ADJUSTMENTS MADE ON SCHEDULE C-2.**

**A.** The operating expense adjustments, totaling \$225,395 follow in the numerical order that they appear on Note (B) of Schedule C-2:

- 1) The adjustment of (\$74,193) was made to exclude the test year operating expenses relating to the Miller Road Treatment Facility. This matches the adjustment made by

1 Mr. Jordan to remove \$340,000 in revenue associated with that facility. Ms. Stacey A.

2 Fulter explains the reasons for the Miller Road Treatment Facility adjustments.

- 3
- 4 2) The adjustment of (\$140,651) was made to normalize purchased power costs and to
- 5 reclassify Miller Road Treatment Facility purchased power costs posted to the general
- 6 ledger. The amount of (\$5,783) is due to the normalization of power costs based on
- 7 power bills received for the twelve months of March 2004 to February 2005. The
- 8 amount of (\$134,868) is due to the reclassification of Miller Road Treatment Facility
- 9 power costs based on approximately 23% of the production from the applicable wells.

- 10
- 11 3) The adjustment of \$1,616 was made to normalize office lease costs for office space
- 12 located at 7500 East McDonald Drive, Scottsdale, AZ, leased from Dan Madison &
- 13 Co, Inc. The normalized costs include an increase of contractual base rent from
- 14 \$3,376.75 effective 08/04/03 – 08/03/04 to \$3,420.04 effective 08/04/04 – 08/03/05
- 15 and the Company's contractual share of 9.66% of the increase in building operational
- 16 expenses for 2005. A copy of the lease contract and the lessor's estimation of 2005
- 17 building operating costs are shown in work paper #2 and work paper #3, respectively.

- 18
- 19 4) The adjustment of \$18,241 was made to reclassify office-lease costs that were
- 20 erroneously capitalized in the test year to operating expense.
- 21

- 1        5)    The adjustment of \$200,566 was made to allocate and normalize group insurance  
2            expense relative to the proposed level of employees and payroll rates, net of the  
3            expenses associated with the employees working at the Miller Road Treatment  
4            Facility. The normalized group insurance expense was based upon the Company's  
5            portion of health and life insurance costs relative to salaries and wages effective April  
6            1, 2005, reduced by a projected capitalized portion. Group insurance expense is  
7            recorded for book purposes at a corporate level and must be allocated to each district  
8            for ratemaking purposes.  
9
- 10       6)    The adjustment of \$62,478 was made to include normalized OPEB expense. The  
11            normalized expense includes the Company's portion of costs related to retiree health  
12            insurance plus amortization of deferred costs, reduced by a projected capitalized  
13            portion. These costs, like those for group insurance, are recorded for book purposes at  
14            the corporate level and must be allocated to each district for ratemaking purposes.  
15
- 16       7)    The adjustment of \$94,280 was made to include amortization of rate case expense  
17            based on the costs of preparation and presentation of this case. Ms. Fulter also  
18            discusses rate-case costs.  
19
- 20       8)    The adjustment of \$35,409 was made to include normalized pension expense. The  
21            adjustment was calculated by dividing the projected year pension funding costs of  
22            \$296,624 by the 115 employee participants, resulting in a \$2,579 funding cost per

1 participant. The \$2,579 cost was multiplied 14.1702 full-time equivalent employees  
2 who worked at Paradise Valley in the test year, excluding time for work at Miller  
3 Road Treatment Facility. The result was a \$36,550 normalized pension cost. This  
4 cost was reduced by a projected capitalized portion of \$2,778, resulting in a projected  
5 normalized pension expense of \$33,772. Comparing the \$33,772 normalize expense  
6 to (\$1,637) posted in the test year resulted in the adjustment of \$35,409.

7  
8 9) The adjustment of \$33,552 was made to include the cost of writing-off the balance of  
9 the Company's materials and supplies inventory not posted to the general ledger.

10  
11 10) The adjustment of \$(22,368) was made to normalize the cost of writing-off the  
12 Company's materials and supplies inventory based upon a 36-month amortization  
13 period.

14  
15 11) The adjustment of \$82,306 was made to normalize operations labor based on actual  
16 wage increases that became effective April 1, 2005, at a full level of employees,  
17 excluding any projected time spent working at the Miller Road Treatment Facility.  
18 The projected time spent working at the Miller Road Treatment Facility was based  
19 upon the recorded percentage of time spent working at the facility in the test year for  
20 each employee. The total normalized payroll costs are projected to be \$596,596. This  
21 total is comprised of \$508,684 related to regular time, \$42,534 related to overtime

1 work, \$41,436 related to capital work at regular rates, and \$3,942 related to capital  
2 work at overtime rates.

3  
4 The normalized regular time cost of \$508,684 was calculated by multiplying each  
5 employee's hourly wage rate, effective April 1, 2005, by 2080 hours (40 hours per  
6 week x 52 weeks) by the percentage of time the employee spent working for Paradise  
7 Valley in the test year and subtracting from the result a projected amount of  
8 normalized capital labor. The amount of normalized capital labor at regular rates of  
9 \$41,436 was projected by increasing the test year total capital labor of \$43,843 by an  
10 estimated wage increase amount of 3.50%, and subtracting projected capital labor at  
11 overtime rates of \$3,942. The amount of normalized overtime labor of \$42,534 was  
12 projected by increasing the test year overtime labor of \$41,096 by an estimated wage  
13 increase amount of 3.50%. The amount of normalized capital labor at overtime rates  
14 of \$3,942 was projected by increasing the test year capital labor at overtime rates of  
15 \$3,808 by an estimated wage increase amount of 3.50%.

16  
17 The \$508,684 of projected normalized labor at regular rates and the \$42,534 of  
18 overtime work were added to derive projected normalized payroll expense of  
19 \$551,219. The projected normalized payroll expense was allocated \$403,163 to  
20 Operations Labor and \$148,056 to Maintenance Labor by using 73.14% for operations  
21 and 26.86% for maintenance, which was derived from the latest three calendar-year  
22 average. Comparing the \$403,163 and \$148,056 of projected normalized labor

1 expense for operations and maintenance to the test year expense of \$320,857 and  
2 \$95,760 for operations and maintenance, respectively, excluding all work associated  
3 with the Miller Road Treatment Facility, resulted in an adjustment of \$82,306 for  
4 Operations Labor Expense and \$52,296 for Maintenance Labor Expense.

5  
6 12) The adjustment of (\$65,841) was made to exclude the test year operating labor  
7 expenses associated with the Miller Road Treatment Facility.

8  
9 **III. ADJUSTMENTS TO MAINTENANCE EXPENSE**

10 **Q. PLEASE EXPLAIN THE ADJUSTMENTS MADE TO MAINTENANCE EXPENSE**  
11 **IN SCHEDULE C-2, NOTE (C).**

12 **A.** As is the case with the adjustments made to Operations Expense, the adjustments to  
13 Maintenance Expense pertain primarily to the annualizing and normalizing of various  
14 maintenance expenses in the test year for known-and-measurable changes. The adjustments  
15 made to Maintenance Expense, totaling (\$48,651), follow in number order that they appear  
16 on Note (C) of Schedule C-2.

17  
18 1) The adjustment of (\$100,772) was made to exclude the test-year maintenance  
19 expenses associated with the Miller Road Treatment Facility included in the general  
20 ledger.

21

1           2)    The adjustment of \$52,296 was made to normalize maintenance labor based on actual  
2                    wage increases that became effective April 1, 2005. See the explanation related to the  
3                    adjustment to normalize operations labor for an explanation of the adjustment to  
4                    normalize maintenance labor.

5  
6           3)    The adjustment of (\$175) was made to exclude the test year operating labor expenses  
7                    associated with the Miller Road Treatment Facility included in the general ledger.  
8

9           **IV.   OTHER INCOME STATEMENT ADJUSTMENTS**

10       **Q.   PLEASE EXPLAIN THE ADJUSTMENT MADE TO DEPRECIATION EXPENSE**  
11       **IN NOTE (D) OF SCHEDULE C-2.**

12       A.   The adjustment of (\$60,527) made to Depreciation Expense is discussed in the testimony of  
13           David P. Stephenson.  
14

15       **Q.   PLEASE EXPLAIN THE ADJUSTMENTS MADE TO PROPERTY TAX EXPENSE**  
16       **IN NOTE (E) OF SCHEDULE C-2.**

17       A.   The adjustment made to Property Tax Expense, totaling (\$14,879), is discussed in the  
18           testimony of David P. Stephenson.  
19

20       **Q.   PLEASE EXPLAIN THE ADJUSTMENTS MADE TO PAYROLL TAX EXPENSE**  
21       **IN NOTE (F) OF SCHEDULE C-2.**



1 A. The adjustments made to Payroll Tax Expense, totaling \$3,818, follow in number order that  
2 they appear on Note (F) of Schedule C-2:

3  
4 1) The adjustment of \$8,836 was made to normalize payroll tax expense based on actual  
5 payroll wages and salaries that became effective April 1, 2005, excluding labor related  
6 to the Miller Road Treatment Facility.

7  
8 2) The adjustment of (\$5,018) was made to exclude the test year payroll tax expense  
9 associated with the Miller Road Treatment Facility included in the general ledger.

10  
11 **Q. PLEASE EXPLAIN THE ADJUSTMENT MADE TO STATE AND FEDERAL**  
12 **INCOME TAXES IN NOTE (G) OF SCHEDULE C-2.**

13 A. The adjustment to state and federal income taxes is discussed in the testimony of David P.  
14 Stephenson.

15  
16 **Q. PLEASE EXPLAIN THE ADJUSTMENT MADE TO INTEREST EXPENSE IN**  
17 **NOTE (G) OF SCHEDULE C-2.**

18 A. The adjustment to interest expense is discussed in the testimony of David P. Stephenson.

19  
20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 A. Yes, it does.

**EXHIBIT**

A-21

*admitted*

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS PARADISE  
VALLEY DISTRICT

DOCKET NO. W-01303A-05-0405

**REBUTTAL TESTIMONY  
OF  
DAVID L. WEBER  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
FEBRUARY 13, 2006**

REBUTTAL TESTIMONY  
OF  
DAVID L. WEBER  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
FEBRUARY 13, 2006

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**EXECUTIVE SUMMARY**

David L. Weber testifies that Staff witness Igwe incorrectly adjusted purchased power expenses and that the Company accepts both Commission Staff and RUCO's adjustments to remove contract labor expenses. The Company accepts RUCO's adjustments to Group Insurance and OPEB expenses and rejects portions of RUCO's adjustments to Labor Expense, Pension Expense, and Payroll Tax Expense.

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE**  
3 **NUMBER.**

4 **A.** My name is David L. Weber. My business address is 131 Woodcrest Road, Cherry Hill,  
5 NJ 08003, and my telephone number is 856-310-5718.

6  
7 **Q. ARE YOU THE SAME DAVID L. WEBER THAT PREVIOUSLY SUBMITTED**  
8 **DIRECT TESTIMONY IN THIS DOCKET?**

9 **A.** Yes.

10  
11 **II. RESPONSE TO COMMISSION STAFF**

12 **A. STAFF ADJUSTMENT TO PURCHASED POWER EXPENSE.**

13 **Q. HAVE YOU REVIEWED MR. IGWE'S DISCUSSION CONCERNING THE**  
14 **COMPANY'S COSTS FOR PURCHASED POWER?**

15 **A.** Yes. In Operating Expense Adjustment No. 2 on page 6 of his testimony, Mr. Igwe  
16 proposes an adjustment of \$15,381 to decrease the Company's proposed purchased power  
17 costs. Mr. Igwe's adjustment removes an amount that the Company accrued in its  
18 general ledger. Mr. Igwe contends that the accrual represents an estimate of future costs  
19 and that the Company did not provide any evidence that it incurred an additional expense  
20 during the test year.

21  
22 **Q. HOW DO YOU RESPOND?**

23 **A.** Mr. Igwe's adjustment would be inappropriate. The amount of \$15,381 was only an  
24 estimate the Company made in its general ledger during 2004 to accrue the amount of  
25 power costs incurred by the Company during that year, but which had not yet been

1           invoiced by the supplier. However, Arizona-American did not rely on the ledger accrual  
2           amount of \$15,381 to calculate the adjusted test year expenses for purchased power.

3  
4   **Q.   IS IT UNUSUAL FOR A GENERAL LEDGER TO CONTAIN 11 MONTHS OF**  
5   **ACTUAL PURCHASED POWER EXPENSE AND AN ACCRUAL FOR ONE**  
6   **MONTH?**

7   A.   No. In fact, it would be unusual for the ledger to look any different. In 2004, Arizona-  
8   American received 12 power bills, but one of those (January 2004) would have been for  
9   December 2003 consumption, so it would not go in the 2004 general ledger. Instead,  
10   2004 would reflect the power bills received from February – December (for January –  
11   November consumption) and an accrual (estimate) for December power costs. This is  
12   typical accrual accounting, used by virtually all organizations.

13  
14   **Q.   HOW DID ARIZONA-AMERICAN CALCULATE A PROPOSED COST OF**  
15   **PURCHASED POWER?**

16   A.   In order to calculate the Company's annual cost of purchased power the Company used  
17   the latest twelve months of actual invoices that were available at the time of filing -  
18   March 2004 to February 2005. The actual invoices for this period totaled \$967,192,  
19   compared to the 2004 general-ledger expense of \$972,975, which included the accrued  
20   costs of \$15,381. In other words, the Company's adjusted total test year purchased  
21   power costs of \$967,192 did not rely, in any fashion, upon the \$15,381 accrual.

22  
23   As a check on the Company's annual cost of purchase power, we can compare the  
24   \$967,192 figure to actual 2004 power costs. As discussed, the ledger included 11 months  
25   of actual payments (for January through November consumption) and an estimate for  
26   December. If we include the actual payment for December consumption, which was paid

1 early in 2005, the total bills paid for 2004 consumption were \$968,512. This clearly  
2 supports the reasonableness of the Company's proposed cost of \$967,192.

3  
4 The Company further adjusted its proposed purchased power costs by reclassifying costs  
5 associated with the Miller Road Treatment Facility.

6  
7 **Q. SO, YOU DISAGREE WITH THE STAFF'S PROPOSED ADJUSTMENT**  
8 **REDUCING PURCHASED POWER EXPENSE BY \$15,381?**

9 A. Yes, actual 2004 power costs closely track the Company's adjusted test-year expense.  
10 Reducing this amount, especially given today's rapidly increasing electricity costs, would  
11 be confiscatory.

12  
13 **B. STAFF ADJUSTMENT TO CONTRACT SERVICES.**

14 **Q. HAVE YOU REVIEWED MR. IGWE'S DISCUSSION CONCERNING THE**  
15 **COMPANY'S INCLUSION OF COSTS ASSOCIATED WITH CONTRACT**  
16 **SERVICES FOR A TEMPORARY EMPLOYEE?**

17 A. Yes. In Operating Expense Adjustment No. 3 on page 7 of his testimony, Mr. Igwe  
18 proposes reducing operating costs by \$32,389 for costs associated with a temporary  
19 employee that subsequently became a Company employee. Mr. Moore's testimony filed  
20 by RUCO also proposes making the same adjustment as one component of his  
21 Adjustment No. 7.

22  
23 **Q. HOW DO YOU RESPOND?**

24 A. The Company accepts this specific proposal made by the Commission Staff and made by  
25 RUCO as one component of RUCO Adjustment No. 7.

1 **III. RESPONSE TO RUCO**

2 **A. RUCO ADJUSTMENT TO CONTRACT SERVICES.**

3 **Q. YOU PREVIOUSLY STATED THAT YOU ACCEPT THIS ADJUSTMENT; IS**  
4 **THAT CORRECT?**

5 **A. Yes.**

6  
7 **B. RUCO ADJUSTMENT TO LABOR EXPENSE**

8 **Q. PLEASE DESCRIBE THE ADJUSTMENT MADE TO LABOR EXPENSE BY**  
9 **MR. MOORE ON WP RLM-7 (2 of 3).**

10 **A. As a component of Adjustment No. 7 on WP RLM-7 (2 of 3) Mr. Moore adjusted Labor**  
11 **Expense to reflect the actual number of employees employed during the test year and the**  
12 **actual percentage of time spent working for Paradise Valley versus the total hours worked**  
13 **for Arizona-American. For certain employees this resulted in an increase in hours and for**  
14 **others it created a decrease in hours compared to the Company proposed level. The**  
15 **overall effect of Mr. Moore's adjustment was a reduction of 7,636 hours to the**  
16 **Company's proposed level.**

17  
18 **Q. HOW DO YOU RESPOND?**

19 **A. RUCO's overall reduction is primarily attributable to several employees who were hired**  
20 **during or shortly after the test year and at the time were anticipated by the Company to**  
21 **work for Paradise Valley at a full annual level of 2,080 hours. The Company has**  
22 **subsequently determined that the employees in question are not needed exclusively for**  
23 **Paradise Valley operations and therefore, for the purpose of reducing issues in the case,**  
24 **accepts RUCO's proposed level of hours for some of the employees. The Company is**  
25 **reluctant to accept this method for determining labor costs, because there are presently a**  
26 **significant number of vacant positions within the Company. RUCO's methodology,**



1 strictly applied, does not allow recovery of the costs for positions being actively  
2 recruited.

3  
4 **Q. YOU STATED THAT YOU COULD ONLY ACCEPT RUCO'S REDUCTION**  
5 **FOR SOME OF THE EMPLOYEES; WHICH ONES CAN'T YOU ACCEPT?**

6 A. We cannot accept the reductions associated with three job classifications: meter readers,  
7 field customer service representatives (CSRs), and plant operators. RUCO proposed a  
8 total 3,626.5 hours for meter readers and CSRs based upon the actual test year hours for  
9 seven employees working a portion of their time on those duties. A more accurate  
10 assessment of the true working conditions in Paradise Valley is for one full-time meter  
11 reader and one full-time CSR, represented by Employee # 19 and # 42, respectively.

12  
13 **Q. HAVE YOU DETERMINED THE COST FOR THESE TWO EMPLOYEES?**

14 A. Yes, the calculation, which is provided on Exhibit DLW-1, uses a full annual level of  
15 2,080 hours for employee #19 and the 2,212 hours as proposed by RUCO for employee  
16 #42 on Line 42 of WP RLM-7 (2 of 3). The hours are multiplied by the employee rates  
17 proposed by the Company and accepted by RUCO. The result is an increase to expense  
18 of \$7, 825. Mr. Biesemeyer discusses the meter-reading position in his rebuttal  
19 testimony.

20  
21 **Q. WHAT ABOUT PLANT OPERATORS?**

22 A. On October 10, 2005 an Assistant Water Treatment Plant Operator from another Arizona-  
23 American district was promoted to Arsenic Treatment Plant Operator for Paradise Valley.  
24 The Company proposes the inclusion of this new position at the employee's current  
25 hourly rate of \$20.00 as the Arsenic Treatment Plant Operator or \$41,600 annually as

1 shown on Exhibit DLW-1. Mr. Biesemeyer discusses the duties for this new position in  
2 his rebuttal testimony.

3  
4 **Q. PLEASE SUMMARIZE THE TOTAL ADJUSTMENTS TO RUCO'S PROPOSED**  
5 **LABOR EXPENSE?**

6 A. As I stated, Arizona-American accepts for the purpose of reducing issues in this case,  
7 much of RUCO's proposed Labor Expense, with a \$49,425 adjustment - \$7,825 for Meter  
8 Readers and CSRs, and \$41,600 to include an Arsenic Plant Operator. Therefore,  
9 RUCO's adjustment No. 7 to Operations Labor on WP RLM-7 Line 10 should be  
10 changed from (\$92,863) to (\$56,714) and the adjustment to Maintenance Labor on WP  
11 RLM-7 Line 11 should be changed from (\$34,101) to (\$20,825).

12  
13 **C. RUCO ADJUSTMENT TO GROUP INSURANCE EXPENSE**

14 **Q. PLEASE DESCRIBE THE ADJUSTMENT MADE BY MR. MOORE TO GROUP**  
15 **INSURANCE EXPENSE ON WP RLM-4.**

16 A. On WP RLM-4 Mr. Moore makes an adjustment of (\$2,972) to Group Insurance Expense  
17 which includes an amount to reflect the actual percentage of each employee's time  
18 allocated to Paradise Valley during the test year.

19  
20 **Q. HOW DO YOU RESPOND?**

21 A. The Company accepts RUCO's adjustment of (\$2,972).

22  
23 **D. RUCO ADJUSTMENT TO OPEB EXPENSE**

24 **Q. PLEASE DESCRIBE THE ADJUSTMENT MADE BY MR. MOORE OPEB**  
25 **EXPENSE ON WP RLM-5.**

1 A. On WP RLM-5 Mr. Moore makes an adjustment of (\$2,093) to OPEB Expense which  
2 includes an amount to reflect the actual percentage of each employee's time allocated to  
3 Paradise Valley during the test year.

4  
5 **Q. HOW DO YOU RESPOND?**

6 A. The Company accepts RUCO's adjustment of (\$2,093).  
7

8 **E. RUCO ADJUSTMENT TO PENSION EXPENSE**

9 **Q. PLEASE DESCRIBE THE ADJUSTMENT MADE BY MR. MOORE TO**  
10 **PENSION EXPENSE ON WP RLM-6.**

11 A. On WP RLM-6 Mr. Moore makes an adjustment of (\$12,037) to Pension Expense which  
12 includes an amount to reflect the number of full-time equivalent employees based upon  
13 actual percentage of each employee's time allocated to Paradise Valley during the test  
14 year.

15  
16 **Q. HOW DO YOU RESPOND?**

17 A. The Company accepts RUCO's adjustment with the exception of the pension cost  
18 associated with the increase in Labor Expense for employees #19 & #42 and the new  
19 Arsenic Plant Operator proposed in Section III B to this testimony.

20  
21 **Q. HAVE YOU DETERMINED THE PENSION COSTS FOR EMPLOYEES #19 &**  
22 **#42 AND THE NEW ARSENIC PLANT OPERATOR?**

23 A. Yes, the calculation, which is provided on Exhibit DLW-1, uses the hours associated  
24 with these three employees to determine an increase of 1.32 full-time equivalents  
25 compared to RUCO. The full-time equivalents are multiplied by pension cost per  
26 participant as determined by RUCO on WP RLM-6 Line 3 of \$2,181. The result is an

1 increase in pension expense of \$2,879 compared to RUCO's proposal. The Company  
2 proposes RUCO's adjustment to Pension Expense on WP RLM-6 Line 12 be changed  
3 from (\$12,037) to (\$9,158).

4  
5 **F. RUCO ADJUSTMENT TO PAYROLL TAX EXPENSE**

6 **Q. PLEASE DESCRIBE THE ADJUSTMENT MADE BY MR. MOORE TO**  
7 **PAYROLL TAX EXPENSE ON WP RLM-11.**

8 **A.** On WP RLM-11 Mr. Moore makes an adjustment of (\$17,204) to Payroll Tax Expense  
9 which includes an amount to reflect the actual percentage of each employee's time  
10 allocated to Paradise Valley during the test year.

11  
12 **Q. HOW DO YOU RESPOND?**

13 **A.** The Company accepts RUCO's adjustment with the exception of the payroll tax expense  
14 associated with the increase in Labor Expense for employees #19 & #42 and the new  
15 Arsenic Plant Operator proposed in Section III B to this testimony.

16  
17 **Q. HAVE YOU DETERMINED THE PAYROLL TAX EXPENSE FOR**  
18 **EMPLOYEES #19 & #42 AND THE NEW ARSENIC PLANT OPERATOR?**

19 **A.** Yes, the calculation, which is provided on Exhibit DLW-1, uses the Company proposed  
20 increase in labor expense associated with these three employees of \$49,425 and  
21 multiplies by the aggregate payroll tax rate of 9.90% as determined by referencing lines 2  
22 through 5 on WP RLM-11. The result is an increase in Payroll Tax Expense of \$4,893  
23 compared to RUCO. The Company proposes RUCO's adjustment to Payroll Tax  
24 Expense on WP RLM-11 Line 8 be changed from (\$17,204) to (\$12,311).  
25

1    **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

2    **A.    Yes, it does.**

DOCKET NO. W-01303A-05-0405  
Arizona-American Water Company  
Rebuttal Testimony of David L. Weber

Exhibit DLW-1

Labor and Related Expenses for Meter Reader and Field Customer Service Representatives

**LINE # LABOR EXPENSE:**

**Inclusion of Arsenic Treatment Plant Operator:**

|   |  |             |
|---|--|-------------|
| 1 | Operator Current Hourly Rate   | \$20.00     |
| 2 | Operator Annual Labor Expense @ 2,080 hours  | \$41,600.00 |
| 3 | Company Proposed Increase in Labor Expense for inclusion of Arsenic Plant Operator | \$41,600.00 |

**Adjustment for Meter Reader and Field Customer Service Representative (CSR) Labor:**

**RUCO Proposed Meter Reader and CSR Labor:**

|    | Line # on WP RLM-7 (2 of 3) | Meter Read<br>Hours | CSR<br>Hours | Total<br>Hours | Rate    | Total<br>Amount |
|----|-----------------------------|---------------------|--------------|----------------|---------|-----------------|
| 4  | 1                           | 32.0                | -            | 32.0           | \$13.97 | \$447           |
| 5  | 14                          | 315.0               | -            | 315.0          | \$15.25 | \$4,804         |
| 6  | 18                          | 363.5               | -            | 363.5          | \$16.09 | \$5,849         |
| 7  | 19                          | -                   | -            | -              | \$14.80 | \$0             |
| 8  | 34                          | 178.0               | 465.0        | 643.0          | \$16.40 | \$10,545        |
| 9  | 37                          | 4.5                 | -            | 4.5            | \$15.04 | \$68            |
| 10 | 38                          | 56.5                | -            | 56.5           | \$22.06 | \$1,246         |
|    | 42                          | 2,143.0             | 69.0         | 2,212.0        | \$16.09 | \$35,591        |
| 11 | Total                       | 3,092.5             | 534.0        | 3,626.5        |         | \$58,550        |

**Revised Company Proposed Meter Reader and CSR Labor:**

|    | Line #  | Meter Read<br>Hours | CSR<br>Hours | Total<br>Hours | Rate    | Total<br>Amount |
|----|---|---------------------|--------------|----------------|---------|-----------------|
| 12 | 19  | 2,080.0             | -            | 2,080.0        | \$14.80 | \$30,784        |
| 13 | 42  | -                   | 2,212.0      | 2,212.0        | \$16.09 | \$35,591        |
| 14 | Total   | 2,080.0             | 2,212.0      | 4,292.0        |         | \$66,375        |
| 15 | Company proposed increase in Labor Expense for Meter Readers and CSR's            |                     |              | 665.5          |         | \$7,825         |
| 16 | Total Company proposed increase in Labor Expense [ Lines 3 + 15 ]                 |                     |              |                |         | \$49,425        |
| 17 | Company proposed increase in Operations Labor Expense from RUCO Proposal @73.14%  |                     |              |                |         | \$36,149        |
| 18 | Company proposed increase in Maintenance Labor Expense from RUCO Proposal @26.86% |                     |              |                |         | \$13,276        |
| 19 | RUCO proposed adjustment to Operations Labor Expense [RLM-7, Line 10]             |                     |              |                |         | (\$92,863)      |
| 20 | RUCO proposed adjustment to Maintenance Labor Expense [RLM-7, Line 11]            |                     |              |                |         | (\$34,101)      |
| 21 | Company accepted portion of RUCO adjustment to Operations Labor Expense           |                     |              |                |         | (\$56,714)      |
| 22 | Company accepted portion of RUCO adjustment to Maintenance Labor Expense          |                     |              |                |         | (\$20,825)      |

**LABOR RELATED EXPENSES:**

**Pension:**

|    |   |                   |            |
|----|---|-------------------|------------|
| 23 | Company proposed increase in hours above RUCO                   |                   | 2,745.5    |
| 24 | Full-Time Equivalent Employees                                  | 2,080 hours / FTE | 1.32       |
| 25 | Pension cost per FTE [RLM-6, Line 3]                            |                   | \$2,181    |
| 26 | Company proposed increase in Pension Expense from RUCO Proposal |                   | \$2,879    |
| 27 | RUCO proposed adjustment to Pension Expense [RLM-6, Line 12]    |                   | (\$12,037) |
| 28 | Company accepted portion of RUCO adjustment                     |                   | (\$9,158)  |

**Payroll Taxes:**

|    |   |  |            |
|----|---|--|------------|
| 29 | Company Proposed Increase from RUCO's Labor Expense Proposal        |  | \$49,425   |
| 30 | Aggregate Payroll Tax Rate [RLM-11, Lines 2 + 3 + 4 + 5]            |  | 9.90%      |
| 31 | Company proposed increase in Payroll Tax Expense from RUCO Proposal |  | \$4,893    |
| 32 | RUCO proposed adjustment to Payroll Tax Expense [RLM-11, Line 8]    |  | (\$17,204) |
| 33 | Company accepted portion of RUCO adjustment                         |  | (\$12,311) |

BEFORE THE ARIZONA CORPORATION COMMISSION

EXHIBIT

A-22  
admitted

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
INC., AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON FOR  
UTILITY SERVICE BY ITS PARADISE VALLEY  
WATER DISTRICT.

DOCKET NO. W-01303A-05-

DIRECT TESTIMONY  
OF  
STACEY A. FULTER  
ON BEHALF OF  
ARIZONA AMERICAN WATER COMPANY  
JUNE 3, 2005

**DIRECT TESTIMONY  
OF  
STACEY A. FULTER  
ON BEHALF OF  
ARIZONA AMERICAN WATER COMPANY  
JUNE 3, 2005**

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1           **I.     INTRODUCTION AND QUALIFICATIONS**

2       **Q.     PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TELEPHONE**  
3       **NUMBER.**

4       A.     My name is Stacey A. Fulter and my business address is 303 H Street Suite 250, Chula  
5           Vista, CA 91910. My business telephone number is (619) 409-7708.

6  
7       **Q.     BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8       A.     I am employed by American Water Works Service Company (Service Company) as an  
9           Intermediate Financial Analyst working for the Rates and Revenue Department in the  
10          Western Region of American Water.

11  
12       **Q.     PLEASE BRIEFLY OUTLINE YOUR RESPONSIBILITIES?**

13       A.     I am responsible for the analysis and preparation of schedules and documentation for  
14           general rate applications for the Western Region companies. The Western Region consists  
15           of water and wastewater utilities located in Arizona, California, New Mexico, Hawaii, and  
16           Texas, including Arizona American Water Company. I am also responsible for the  
17           maintenance of reports and records within the Rate Department.

18  
19       **Q.     BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

20       A.     I received a Bachelor of Science in Accounting in 1995 and a Master of Science in  
21           Accounting in 1997 from San Diego State University.

22

1 Q. HAVE YOU HAD ANY OTHER FORMAL TRAINING?

2 A. Yes, I have attended the NARUC Western Utility Rate Seminar in 1998, which covered  
3 the basics of utility ratemaking for regulated entities.  
4

5 Q. HAVE YOU TESTIFIED BEFORE ANY REGULATORY AGENCIES?

6 A. Yes, I have previously provided written testimony for Paradise Valley Water Company  
7 and for California American Water.  
8

9 II. GENERAL RATE CASE ISSUES

10 Q. WHAT ARE YOUR RESPONSIBILITIES IN THIS PROCEEDING?

11 A. I am responsible for the coordination and review of the work product of the Shared  
12 Service associates, which gathered the various data in relation to expenses and revenues  
13 including the pro-forma adjustments. I am directly responsible for rate case expenses,  
14 General Office allocations, and pro-forma adjustments enumerated on Schedule C-2  
15 relating to the Miller Road Treatment Facility.  
16

17 A. REGULATORY EXPENSE

18 Q. WHAT IS THE REGULATORY EXPENSE ESTIMATE FOR THIS PARADISE  
19 VALLEY GENERAL RATE CASE APPLICATION?

20 A. For this rate application, I have estimated total rate case expense costs of \$282,841.  
21

1 **Q. PLEASE LIST THE ITEMS AND AMOUNTS THAT COMPRISE THE \$282,841**  
2 **RATE CASE EXPENSE ESTIMATE.**

3 A. The items and estimated amounts that comprise this estimate are as follows:

|    |                            |                |
|----|----------------------------|----------------|
| 4  | Outside Project Consultant | \$14,500       |
| 5  | Legal Fees                 | \$36,000       |
| 6  | AWW Shared Service         | \$77,049       |
| 7  | Company Labor              | \$39,594       |
| 8  | Company Expenses           | \$14,830       |
| 9  | Cost of Capital            | \$79,383       |
| 10 | Witness Training           | \$6,500        |
| 11 | Rate Design Consultant     | \$4,995        |
| 12 | Cost of Service Consultant | <u>\$9,990</u> |
| 13 |                            |                |
| 14 | Total Rate Case Expense    | \$282,841      |
| 15 |                            |                |

16 **Q. PLEASE EXPLAIN HOW RATE CASE EXPENSES WERE ESTIMATED.**

17 A. The projected expense level for each expense category was determined based on the best  
18 available information. The costs of the outside project consultant, cost-of-capital  
19 consultants, rate design consultant, and cost-of-service consultant were all projected based  
20 on cost estimates received from each of those consultants. The outside project  
21 consultant's estimate is based on 116 hours at \$125. The rate-design and cost-of-service  
22 consultant's hourly rate is \$185 with 27 and 54 hours respectively.

23  
24 The total cost estimate of \$158,767 for the cost-of-capital consultant was reduced by fifty  
25 percent to \$79,383. We retained the Brattle Group as our cost-of-capital consultants. We  
26 have included only fifty percent of the estimate so that the costs, as well as the benefit, of  
27 these services are shared equally by the Company's investors and ratepayers.  
28

1       Witness-training expenses were estimated based on current costs for this type of programs.  
2       The most recent cost for this program is for ten participants for a total of \$11,210. The  
3       estimated cost of \$6,500 for Paradise Valley Water is based on fewer participants  
4       requiring training. The estimate from MJ Solutions for Witness Preparation is provided in  
5       the work papers.

6  
7       Company labor expenses were estimated by multiplying each employee's hourly wage  
8       rate, effective April 1, 2005, with their working hours estimated for the Paradise Valley  
9       rate case. Total hours estimated for all six employees was 1,532 hours for a total labor  
10      estimate of \$39,594. Company expenses were calculated based on a per-person, per-day  
11      amounts of \$150 transportation, \$150 hotel, \$50 food, and \$25 other expenses.

12  
13      To reduce costs and litigation, the Company will not be using outside legal counsel in this  
14      case. Legal costs for our in-house counsel were estimated at \$80 per hour and five 40-  
15      hour weeks of labor plus \$20,000 for miscellaneous expenses.

16  
17      Shared-service labor expenses were estimated by multiplying each employee's hourly  
18      wage rate, effective April 1, 2005, with their working hours estimated for the Paradise  
19      Valley rate case. Total hours estimated for all six employees was 474 hours for a total  
20      labor estimate of \$72,949. Shared Service expenses were calculated based on per person,  
21      per day amounts of \$700 transportation, \$150 hotel, \$50 food, and \$25 other expenses.

22

1     **Q     WHY DID YOU INCLUDE COMPANY LABOR AND AWW SHARED SERVICES**  
2     **IN THE ESTIMATE OF RATE CASE EXPENSE?**

3     A.     Company labor is included in the estimate of rate case expense, so that costs to prepare  
4             and defend a rate case are appropriately included in each district. Previously, all time was  
5             allocated. Due to the number of active cases, it is necessary for AWW Shared Services to  
6             assist with various aspects of the case.

7  
8     **B.     ADJUSTMENTS FOR MILLER ROAD TREATMENT FACILITY**

9     **Q.     WHY IS THE COMPANY ADJUSTING RECORDED REVENUES AND**  
10     **OPERATION AND MAINTENANCE EXPENSES FOR MILLER ROAD**  
11     **TREATMENT FACILITY AS CONTAINED ON SCHEDULE C-2?**

12     A.     In 1994, trace amounts of a volatile organic compound called trichloroethylene (TCE)  
13             were detected in a groundwater monitoring well located just north of Chaparral Road in  
14             the City of Scottsdale. The Arizona Department of Environmental Quality (ADEQ)  
15             advised the Company that a plume of TCE was slowly migrating north, and was expected  
16             to reach the Company's well field, contaminating its wells.

17  
18             To protect the Company's wells from contamination, the Company negotiated an  
19             agreement with the North Indian Bend Wash (NIBW) Participating Companies (Motorola,  
20             Siemens, and SmithKline Beecham) to build a treatment plant at no cost to the Company.  
21             The Participating Companies are also responsible for all costs related to the operation of  
22             the facility. The Miller Road Treatment Facility (MRTF) was completed in September,

1 1997 and its ownership transferred to the Company in December 1997. All costs are fully  
2 reimbursed by the Participating Companies with no expense or revenue to the Company or  
3 its customers. This method of treatment has been in place since the inception and was  
4 uncontested in Paradise Valley Water's previous rate case (Docket No. W-01303A-98-  
5 0507).

6  
7 **Q. WHAT ARE THE ADJUSTMENTS TO RECORDED REVENUES?**

8 A. Note (A) 2 on Schedule C-2 reduces recorded revenues by \$340,000 to exclude  
9 miscellaneous revenues associated with the Miller Road Treatment Facility. Additional  
10 adjustments to Operating Revenues are discussed in the testimony of Ralph Jordan.

11  
12 **Q. WHAT ARE THE ADJUSTMENTS TO RECORDED OPERATING AND**  
13 **MAINTENANCE EXPENSES?**

14 A. Total Operating and Maintenance expenses for the Miller Road Treatment Facility were  
15 adjusted \$245,999 and are explained in the testimony of David Weber.

16  
17 **C. GENERAL OFFICE ALLOCATIONS**

18 **Q. PLEASE EXPLAIN HOW GENERAL OFFICE COSTS WERE ALLOCATED TO**  
19 **THE DISTRICT?**

20 A. General office costs were allocated to Paradise Valley using the 4-factor method. Using  
21 this method results in an 8.12% or \$970,369 allocation of general office costs to Paradise  
22 Valley. The four-factor analysis considers many factors, all of which produce the benefits

1 Arizona American Water receives from the Service Company. This method was  
2 previously accepted in the Company's most recent general rate case (Docket No. WS-  
3 01303A-02-0867, et al).  
4

5 **Q. WHAT ARE THE COSTS INCLUDED IN THE GENERAL OFFICE**  
6 **ALLOCATION?**

7 **A.** The costs categories that have been allocated include:

8 Labor  
9 Group Insurance  
10 Pensions  
11 Management Fees  
12 Insurance Other Than Group  
13 Customer Accounting  
14 Rents  
15 General Office Expenses  
16 Miscellaneous Expenses  
17 Maintenance Expenses  
18 Depreciation  
19 General Taxes  
20  
21

22 **Q. WHAT ADJUSTMENTS HAVE BEEN MADE TO CORPORATE OFFICE**  
23 **COSTS?**

24 **A.** Corporate Office costs have been adjusted to include Group Insurance in the amount of  
25 \$172,970 and Pensions in the amount of \$38,948 that are associated with the Corporate  
26 Office employees.  
27

28 Corporate Office costs have also been adjusted to exclude costs for employees that  
29 transferred to the Service Company. These adjustments include: Labor charges in the

1 amount of \$488,851, Group Insurance in the amount of \$64,316 and Pension expenses in  
2 the amount of \$14,186. In addition, an adjustment was made to exclude 401k and ESOP  
3 contributions in the amount of \$16,328 and General Taxes in the amount of \$38,167 for  
4 employees transferred to the Service Company. The total adjustment for employees  
5 transferred to the Service Company is \$621,848.

6  
7 An adjustment was made for pro-forma Management fees for the transferred employees in  
8 the amount of \$228,356. Pro-forma management fees were derived by applying Arizona-  
9 American's General Office cost-allocation-factor of 36.7% to the adjustment total of  
10 \$621,848 for employees transferred to the Service Company.

11  
12 **Q. WHAT OTHER ADJUSTMENTS HAVE BEEN MADE TO CORPORATE**  
13 **OFFICE COSTS?**

14 A. Depreciation expense was adjusted \$1,000,111 to remove the Citizens Acquisition  
15 Premium.

16  
17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 A. Yes.



BEFORE THE ARIZONA CORPORATION COMMISSION

EXHIBIT

A-23  
admitted

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
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DETERMINATION OF THE CURRENT FAIR  
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RATES AND CHARGES BASED THEREON FOR  
UTILITY SERVICE BY ITS PARADISE VALLEY  
WATER DISTRICT.

DOCKET NO. W-01303A-05-

DIRECT TESTIMONY  
OF  
RALPH A. JORDAN  
ON BEHALF OF  
ARIZONA AMERICAN WATER COMPANY  
JUNE 3, 2005

**DIRECT TESTIMONY  
OF  
RALPH A. JORDAN  
ON BEHALF OF  
ARIZONA AMERICAN WATER COMPANY  
JUNE 3, 2005**

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1           **I.     INTRODUCTION AND QUALIFICATIONS**

2       **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3       A.   My name is Ralph A. Jordan and my business address is 3906 Church Road, Mount Laurel,  
4           NJ 08054.

5  
6       **Q.   BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7       A.   I am employed by American Water Shared Services Center ("SSC") as a Financial Analyst  
8           in the Rates and Regulation Department. The SSC is an at-cost service provider to the  
9           operations of the American Water system.

10  
11       **Q.   PLEASE BRIEFLY OUTLINE YOUR RESPONSIBILITIES AS A FINANCIAL**  
12       **ANALYST.**

13       A.   As Financial Analyst, I am responsible for preparing work papers and exhibits in support of  
14           rate applications on behalf of the operating subsidiaries in the American Water System.

15  
16       **Q.   DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

17       A.   I am currently pursuing a Bachelor of Science Degree in Finance at Rutgers University.

18  
19       **Q.   HAVE YOU HAD ANY OTHER FORMAL TRAINING?**

20       A.   I have also attended the NARUC Utility Rate School.  
21

1 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

2 A. From June 1990 until December 1996 I was employed by Policy Management Systems  
3 Corporation in Mt. Laurel, NJ as Territory and Branch Manager. I began my employment  
4 with New Jersey-American Water Company (an American Water subsidiary) as a Senior  
5 Business Clerk in April 1997. On September 4, 2001 I was promoted to Financial Specialist  
6 and transferred to the SSC. On April 1, 2004 I was promoted to my present position as  
7 Financial Analyst.

8  
9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

10 A. The purpose of my testimony is to support the development of revenues for Arizona  
11 American Water at present rates including the adjustment to the Paradise Valley Country  
12 Club. Present rate revenues do not include any applicable taxes or surcharges. I am  
13 sponsoring Schedules E-7 and C-2, and related supporting work papers.

14  
15 **II. TEST YEAR REVENUE ADJUSTMENTS**

16 **Q. PLEASE EXPLAIN ADJUSTMENT A-1 ON SCHEDULE C-2.**

17 A. Adjustment A-1 normalizes revenues to reflect an increase of 13 new residential customers  
18 in the test year. Normalized residential revenue was calculated by multiplying the average  
19 monthly residential bill of \$50.17 by the number of new customers (13), and multiplying  
20 that amount by 6 to reflect the average test year duration of new customers. The resulting  
21 volumetric residential normalization is \$3,913.26. The 5/8 inch meter charge of \$8.41 is  
22 then multiplied by the number of new customers, and then by 6, to arrive at normalized

1 residential metered revenue of \$655.98. Normalized residential revenue during the test year  
2 is \$4,569.24.

3  
4 **Q. PLEASE EXPLAIN ADJUSTMENT A-2 ON SCHEDULE C-2.**

5 A. Adjustment A-2 removes Other Revenues of \$340,000 associated with the Miller Road  
6 Treatment Facility. Miller Road Treatment Facility adjustments are explained in the  
7 testimony of Stacey A. Fulter.

8  
9 **Q. PLEASE EXPLAIN ADJUSTMENT A-3 SHOWN ON SCHEDULE C-2.**

10 A. Adjustment A-3 adjusts test year revenues by negative (\$46,767) to remove unbilled  
11 revenues.

12  
13 **Q. PLEASE EXPLAIN ADJUSTMENT A-4 SHOWN ON SCHEDULE C-2.**

14 A. Adjustment A-4 increases test year revenues to reflect 2004 Paradise Valley Country Club  
15 excess usage, which was billed in 2005. The annual base is 574.08 acre-feet. 2004 Country  
16 club usage was 203,063 thousand gallons, or 623.20 acre-feet, an excess over base of 49.12  
17 acre-feet. This excess was then multiplied by the 2005 acre-foot commodity charge of  
18 \$271.39 to arrive at an adjustment to Commercial revenue of \$13,330.68. The monthly  
19 Service Charge for 2004 was \$248.64 and the monthly service charge is for 2005 is \$256.84,  
20 resulting in a difference of \$8.20. On an annual basis, the service charge difference is  
21 \$98.20, which, when added to the commodity charge adjustment of \$13,330.68, results in a  
22 total adjustment at present rates of \$13,429.08. Please see WKPR – 3 for the calculation.

1  
2 **Q. PLEASE EXPLAIN ADJUSTMENT A-5 SHOWN ON SCHEDULE C-2.**

3 A. Adjustment A-5 on Schedule C-2 increases test year revenues to correct an error in the  
4 second block of rate schedule P1M1A. Rate Schedule P1M1A's second volumetric rate  
5 block range is currently 26-80 thousand gallons. However, P1M1A was incorrectly set-up  
6 to *add* 80 to the second block rather than crest at 80, for a total range of 26-105. As a result,  
7 greater usage was allocated to the second block and less usage was allocated to the third  
8 block. This error was in effect for the 2004 revenue months of January through April, and  
9 was corrected for the May billing.

10  
11 From January to April, 27,869.01 thousand gallons were over-allocated to the second block  
12 and under-allocated to the third block. Total actual revenue for rate schedule P1M1A for  
13 January through April was subtracted from the corrected revenue for rate schedule P1M1A  
14 for that period using the appropriate volumetric rate blocks to arrive at a test year revenue  
15 adjustment of \$13,655.79.

16  
17 **Q. PLEASE EXPLAIN ADJUSTMENT A-6 SHOWN ON SCHEDULE C-2.**

18 A. Residential revenues are adjusted \$3,509 to reflect Mummy Mountain residential customers  
19 on Paradise Valley's current three-block rate structure. Volumetric revenues are decreased  
20 \$3,378 and Service Charge revenues are increased \$6,887 for a net increase in revenues of  
21 \$3,509.

22

1    **Q.   DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

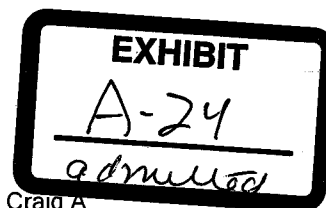
2    A.   Yes it does.



Joel M Reiker

03/17/2006 03:02 PM

To: dcarlson@azcc.gov, jdorf@azcc.gov  
cc: Thomas M Broderick/AZAWC/AWWSC@AWW, Craig A  
Marks/AZAWC/AWWSC@AWW, Linda  
Gutowski/ADMIN/CORP/AWWSC@AWW, mscott@azcc.gov  
Subject: Follow-up to AZAm's response to Staff 7.1



Darron-

I wanted to let you know that as a follow-up to our Staff 7.1 response, I've gone through all of the invoices we provided on Monday and tagged the ones that we would agree do not belong in the account (see attached spreadsheet under the "Additional Adjustments" column). Whatever you wish to do with this is obviously up to you - we will probably offer the adjustment (shown at the bottom) at the hearing.



Vouchers over \$1,000.xls

Regards,

Joel M. Reiker  
American Water, Western Region Rates  
19820 North 7th Street Suite 201  
Phoenix, Arizona 85024  
Offc. 623.445.2490  
Mob. 602.885.4051  
joel.reiker@amwater.com



[illegible]

| Line No. | Branches | Description                    | Object | Subledger | Work Order | Document | Doc. No. | Period | Fiscal Year | GL Date  | Amount | Previously Adjusted | Additional Adjustments | Adjusted | Explanation                     | Add. Explanation        |
|----------|----------|--------------------------------|--------|-----------|------------|----------|----------|--------|-------------|----------|--------|---------------------|------------------------|----------|---------------------------------|-------------------------|
| Line No. | Branches | Description                    | Object | Subledger | Work Order | Type     | Doc. No. | Period | Fiscal Year | GL Date  | Amount | Previously Adjusted | Additional Adjustments | Adjusted | Explanation                     | Add. Explanation        |
| 81       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40743350 | 5      | 4           | 05/07/04 | 9,894  | 9,894               |                        | 9,894    | Brown & Calabrese, REMIT        | PROJECT 022/0052538 000 |
| 82       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40743350 | 5      | 4           | 05/07/04 | 1,643  | 1,643               |                        | 1,643    | Office Term-Box 50000-REMIT     | ACT 002/1005430000      |
| 83       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40751220 | 5      | 4           | 05/18/04 | 1,620  | 1,620               |                        | 1,620    | Robert Hall Management Resource | PAT CIPPON              |
| 84       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 85       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 86       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 87       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 88       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 89       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 90       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 91       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 92       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 93       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 94       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 95       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 96       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 97       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 98       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 99       | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 100      | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 101      | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 102      | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  | 40754320 | 5      | 4           | 05/18/04 | 1,866  | 1,866               |                        | 1,866    | Office Term-Box 50000-REMIT     | CUST # 0021 005439-000  |
| 103      | 2301     | Contract Svc - Other Temp Enpl | 535001 | 16        |            | Voucher  |          |        |             |          |        |                     |                        |          |                                 |                         |

| Line | No.  | District | Business Unit | Description              | Object Class | Subledger | Work Order | Type  | Document | Doc. No. | Period No. | Fiscal Year | GL Date   | Amount | Previously Accepted | Additional Adjustments | Adjusted | Explanation                    | Add. Explanation           |
|------|------|----------|---------------|--------------------------|--------------|-----------|------------|-------|----------|----------|------------|-------------|-----------|--------|---------------------|------------------------|----------|--------------------------------|----------------------------|
|      |      |          | GLMCU         |                          | GLOBAL       | GLSUB     | GLSBL      | GLDCT | GLDCT01  | GLDCC    | GLPN       | GLFY        | GLDGL     | GLAA   | Adjustments         | Adjustments            | Adjusted | GLEXA                          | GLEXP                      |
| 181  | 2301 |          | 230117        | Misc Oper Exp AG Credit  | 575001       |           |            | PV    | Voucher  | 40907136 | 12         |             | 4/11/2004 | 4.853  |                     |                        | 4.853    | Arizona Dept of Environmental  | SERVICES 06015 TO 06013004 |
| 182  | 2301 |          | 230105        | Advertising              | 575030       |           |            | PV    | Voucher  | 40784389 |            |             | 4/07/004  | 3.921  |                     |                        | 6.800    | E S ROCK Partners              | JOB AHER114                |
| 183  | 2301 |          | 230117        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40676046 | 2          |             | 4/02/104  | 6.910  |                     |                        | 6.910    | Direct Impact                  | coordinating product       |
| 184  | 2301 |          | 230105        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40682354 | 3          |             | 4/03/004  | 5.528  |                     |                        | 5.528    | Woodshoop Advertising & Publ   | ADVERTISING                |
| 185  | 2301 |          | 230105        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40752448 | 4          |             | 4/04/004  | 1.150  |                     |                        | 1.150    | Woodshoop Advertising & Publ   | coordinating product       |
| 186  | 2301 |          | 230117        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40748354 | 5          |             | 4/05/104  | 1.092  |                     |                        | 1.092    | Acorn Printing Group Inc       | SERVICES RENDERED          |
| 167  | 2301 |          | 230117        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40748352 | 4          |             | 4/05/104  | 1.135  |                     |                        | 1.135    | Acorn Printing Group Inc       | SERVICES RENDERED          |
| 168  | 2301 |          | 230117        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40748350 | 5          |             | 4/05/104  | 1.132  |                     |                        | 1.132    | Acorn Printing Group Inc       | SERVICES RENDERED          |
| 169  | 2301 |          | 230117        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40748347 | 6          |             | 4/05/104  | 1.132  |                     |                        | 1.132    | Acorn Printing Group Inc       | SERVICES RENDERED          |
| 170  | 2301 |          | 230117        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40748347 | 6          |             | 4/05/104  | 1.132  |                     |                        | 1.132    | Acorn Printing Group Inc       | SERVICES RENDERED          |
| 171  | 2301 |          | 230117        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40748347 | 6          |             | 4/05/104  | 1.132  |                     |                        | 1.132    | Acorn Printing Group Inc       | SERVICES RENDERED          |
| 172  | 2301 |          | 230117        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40748347 | 6          |             | 4/05/104  | 1.132  |                     |                        | 1.132    | Acorn Printing Group Inc       | SERVICES RENDERED          |
| 173  | 2301 |          | 230117        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40748347 | 6          |             | 4/05/104  | 1.132  |                     |                        | 1.132    | Acorn Printing Group Inc       | SERVICES RENDERED          |
| 174  | 2301 |          | 230117        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40748347 | 6          |             | 4/05/104  | 1.132  |                     |                        | 1.132    | Acorn Printing Group Inc       | SERVICES RENDERED          |
| 175  | 2301 |          | 230117        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40748347 | 6          |             | 4/05/104  | 1.132  |                     |                        | 1.132    | Acorn Printing Group Inc       | SERVICES RENDERED          |
| 176  | 2301 |          | 230117        | Bill Benefits            | 575120       |           |            | PV    | Voucher  | 40748347 | 6          |             | 4/05/104  | 1.132  |                     |                        | 1.132    | Acorn Printing Group Inc       | SERVICES RENDERED          |
| 177  | 2301 |          | 230105        | Common Relations         | 575240       |           |            | PV    | Voucher  | 40913865 | 12         |             | 4/12/004  | 2.446  |                     |                        | 2.446    | Advanced Communications Agency | PRINTING                   |
| 178  | 2301 |          | 230105        | Co Development/Marketing | 575240       |           |            | PV    | Voucher  | 40913865 | 12         |             | 4/12/004  | 2.446  |                     |                        | 2.446    | Advanced Communications Agency | PRINTING                   |
| 179  | 2301 |          | 230105        | Co Development/Marketing | 575240       |           |            | PV    | Voucher  | 40913865 | 12         |             | 4/12/004  | 2.446  |                     |                        | 2.446    | Advanced Communications Agency | PRINTING                   |
| 180  | 2301 |          | 230105        | Co Development/Marketing | 575240       |           |            | PV    | Voucher  | 40913865 | 12         |             | 4/12/004  | 2.446  |                     |                        | 2.446    | Advanced Communications Agency | PRINTING                   |
| 181  | 2301 |          | 230105        | Co Development/Marketing | 575240       |           |            | PV    | Voucher  | 40913865 | 12         |             | 4/12/004  | 2.446  |                     |                        | 2.446    | Advanced Communications Agency | PRINTING                   |
| 182  | 2301 |          | 230105        | Co Development/Marketing | 575240       |           |            | PV    | Voucher  | 40913865 | 12         |             | 4/12/004  | 2.446  |                     |                        | 2.446    | Advanced Communications Agency | PRINTING                   |
| 183  | 2301 |          | 230105        | Co Development/Marketing | 575240       |           |            | PV    | Voucher  | 40913865 | 12         |             | 4/12/004  | 2.446  |                     |                        | 2.446    | Advanced Communications Agency | PRINTING                   |
| 184  | 2301 |          | 230105        | Co Development/Marketing | 575240       |           |            | PV    | Voucher  | 40913865 | 12         |             | 4/12/004  | 2.446  |                     |                        | 2.446    | Advanced Communications Agency | PRINTING                   |
| 185  | 2301 |          | 230105        | Co Development/Marketing | 57           |           |            |       |          |          |            |             |           |        |                     |                        |          |                                |                            |



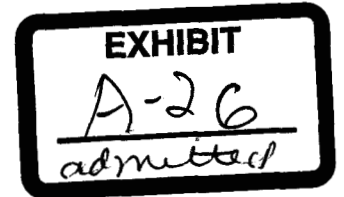
**EXHIBIT**A-25admittedEx  
Page 1 of 1

Arizona American Water Company  
Paradise Valley Water District  
W-01303A-05-0405  
Corporate Allocated Miscellaneous Expenses

|      |   |              |
|------|---|--------------|
| Line |   |              |
| No.  |   |              |
| 1    |   |              |
| 2    |   |              |
| 3    | Total Az Corporate/Central Division                       |              |
| 4    | Corporate Miscellaneous Expenses (as filed)               | \$ 1,793,696 |
| 5    |   |              |
| 6    | Paradise Valley Allocation Factor                         | 8.12%        |
| 7    |   |              |
| 8    | Paradise Valley Allocation (as filed)                     | 145,648      |
| 9    |   |              |
| 10   | RUCO Proposed Adjustments (Ice, Grounds Keeping,          |              |
| 11   | Maint. Of Indoor Office Plants, Office Renovation Study   | (4,476)      |
| 12   |   |              |
| 13   | Additional Adjustments proposed by Company in response to |              |
| 14   | Staff data request 7.1                                    | (2,153)      |
| 15   |   |              |
| 16   | Subtotal (Staff Recommended)                              | \$ 139,019   |
| 17   |   |              |
| 18   | Add Back: Ice, Grounds Keeping (Company position)         | 903          |
| 19   |   |              |
| 20   | Total Paradise Valley Allocation (Company Proposed)       | \$ 139,922   |

Arizona-American Water Company / Paradise Valley Water District  
Test Year Using 12 Months Ended December 2004

Exhibit  
Schedule  
Page  
Witness: Kozoman  
Witness: Bourassa



Revised  
Corrected

90% Demand

Gallons Sold Corrected

**Arizona-American Water Company / Paradise Valley Water District**  
Test Year Using 12 Months Ended December 2004  
Cost of Service Study, Using Commodity Demand Method  
Rates of Return at Present Rates

Exhibit  
Schedule G-1  
Page 1  
Witness: Kozoman  
Revised

| Meter Size->                             | 90% Demand | Gallons Sold Corrected | 3/4"    | 1"        | 1 1/2"  | 2"        | 3"      | 4"      | 6"      | Totals     | Differences |
|--|------------|------------------------|---------|-----------|---------|-----------|---------|---------|---------|------------|-------------|
|  |            | 5/8" x 3/4"            |         |           |         |           |         |         |         |            |             |
| Water Revenues (1)                       | 5,034,206  | 961,663                | 2,647   | 2,462,061 | 119,141 | 1,051,564 | 163,586 | 1,681   | 271,864 | 5,034,206  | -           |
| Revenue Annualizations & Adjustments (2) | 21,597     | 8,168                  |         |           |         |           |         |         | 13,429  | 21,597     | -           |
| Other Revenues (a)                       | 12,458     | 12,458                 |         |           |         |           |         |         |         | 12,458     | -           |
| Misc. Revenue (a)                        | 924        | 924                    |         |           |         |           |         |         |         | 924        | -           |
| Total Revenues                           | 5,069,185  | 983,213                | 2,647   | 2,462,061 | 119,141 | 1,051,564 | 163,586 | 1,681   | 285,293 | 5,069,185  | -           |
| Operating Expenses (b)                   | 3,178,388  | 737,181                | 5,905   | 1,507,033 | 74,161  | 608,546   | 89,719  | 5,181   | 150,663 | 3,178,388  | -           |
| Depreciation and Amortization (b)        | 720,578    | 213,733                | 1,197   | 320,514   | 13,223  | 114,948   | 19,529  | 386     | 37,049  | 720,578    | -           |
| Property Tax (c)                         | 228,120    | 44,246                 | 119     | 110,796   | 5,361   | 47,322    | 7,362   | 76      | 12,839  | 228,120    | (0)         |
| Income Tax (d)                           | 216,705    | (47,540)               | (2,158) | 135,213   | 7,135   | 83,916    | 14,755  | (1,812) | 27,195  | 216,705    | (0)         |
| Total Operating Expenses                 | 4,343,791  | 947,619                | 5,063   | 2,073,555 | 99,881  | 854,731   | 131,365 | 3,831   | 227,746 | 4,343,791  | (0)         |
| Operating Income                         | 725,394    | 35,593                 | (2,416) | 388,506   | 19,260  | 196,833   | 32,220  | (2,149) | 57,547  | 725,394    | 0           |
| Interest Expense (e)                     | 399,637    | 107,056                | 827     | 185,250   | 8,535   | 70,688    | 10,040  | 574     | 16,666  | 399,637    | 0           |
| Net Income                               | 325,757    | (71,463)               | (3,244) | 203,255   | 10,725  | 126,145   | 22,181  | (2,723) | 40,881  | 325,757    | (0)         |
| Rate Base (f)                            | 11,651,215 | 3,121,178              | 24,125  | 5,400,882 | 248,825 | 2,060,878 | 292,705 | 16,732  | 485,891 | 11,651,215 | 0           |
| Rate of Return (g)                       | 6.23%      | 1.14%                  | -10.02% | 7.19%     | 7.74%   | 9.55%     | 11.01%  | -12.85% | 11.84%  |            |             |

- (1) Revenues from Rate Schedules labeled as H - 1  
(2) Certain Other Adjustments would not occur in the rate book.  
(a) Miscellaneous Revenue, Adjustment, and Other Revenues allocated to 5/8 Inch Customer Class.  
(b) Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.  
(c) Present Property Taxes allocation based on Revenues  
(d) Income Tax from Schedule F-1, at Present Rates. Income Taxes allocation based on taxable income  
(e) Interest Expense allocation based on Rate Base, Please see Schedule G-3, Page 1  
(f) Rate Base computations are shown on Schedule G-3, Page 1  
(g) Operating Income Divided by Rate Base





Test Year Using 12 Months Ended December 2004  
Cost of Service Study Using Commodity / Demand Method

Exhibit  
Schedule  
Page

Revised Witness: Kozoman

90% Demand Gallons Sold Corrected

Corrected

1 1/2"

11

**3/4"**

**5/8 x 3/4"**

Totals

6

4"

3"

"

1 1/2"

=

—

 $5/8 \times 3$ **totals**[illegible][illegible][illegible]

|  | <u>Interest</u> | <u>Allocated Interest Expense to Customer Classes</u> |         |          |         |          |         |         |         |
|--|-----------------|---|---------|----------|---------|----------|---------|---------|---------|
| Interest Expense Allocation:           | 399,637         | 107,056   | 828     | 185,250  | 8,535   | 70,688   | 10,040  | 574     | 16,666  |
| Ratio of rate bases to total rate base |                 | 26.7884%  | 0.2071% | 46.3547% | 2.1356% | 17.6881% | 2.5122% | 0.1436% | 4.1703% |

Arizona-American Water Company / Paradise Valley Water District

Test Year Using 12 Months Ended December 2004

Cost of Service Study, Using Commodity Demand Method

Allocation of Expenses to Customer Classes

90% Demand

Gallons Sold Corrected

Exhibit  
Schedule G-4  
Page 1  
Witness: Kozoman  
Revised  
Corrected

|  | Totals    | 5/8 x 3/4" | 3/4"  | 1"        | 1 1/2" | 2"      | 3"     | 4"    | 6"      | Total     | Difference |
|--|-----------|------------|-------|-----------|--------|---------|--------|-------|---------|-----------|------------|
| <u>Operation and Maintenance Expense (from Schedule G-6, Page 1)</u> |           |            |       |           |        |         |        |       |         |           |            |
| Commodity  | 1,012,693 | 200,133    | 221   | 458,341   | 21,304 | 201,437 | 42,681 | -     | 88,575  | 1,012,693 | -          |
| Demand   | 2,102,841 | 504,763    | 5,452 | 1,022,531 | 52,190 | 403,879 | 46,851 | 5,167 | 62,008  | 2,102,841 | -          |
| Customer   | 62,854    | 32,284     | 232   | 26,160    | 668    | 3,229   | 187    | 13    | 79      | 62,854    | 0          |
| Service  | -         | -          | -     | -         | -      | -       | -      | -     | -       | -         | -          |
| Meter  | -         | -          | -     | -         | -      | -       | -      | -     | -       | -         | -          |
| Totals   | 3,178,388 | 737,181    | 5,905 | 1,507,033 | 74,161 | 608,546 | 89,719 | 5,181 | 150,663 | 3,178,388 | -          |
| <u>Depreciation Expense on Plant (from Schedule G-6, Page 2)</u>     |           |            |       |           |        |         |        |       |         |           |            |
| Commodity  | 375,061   | 74,121     | 82    | 169,752   | 7,890  | 74,604  | 15,807 | -     | 32,805  | 375,061   | -          |
| Demand   | 96,376    | 23,134     | 250   | 46,864    | 2,392  | 18,510  | 2,147  | 237   | 2,842   | 96,376    | -          |
| Customer   | 121,040   | 62,172     | 448   | 50,378    | 1,286  | 6,218   | 361    | 25    | 153     | 121,040   | 0          |
| Service  | 102,842   | 48,125     | 347   | 44,060    | 1,215  | 7,876   | 613    | 63    | 544     | 102,842   | (0)        |
| Meter  | 25,258    | 6,180      | 71    | 9,460     | 440    | 7,738   | 602    | 61    | 706     | 25,258    | -          |
| Totals   | 720,578   | 213,733    | 1,197 | 320,514   | 13,223 | 114,948 | 19,529 | 386   | 37,049  | 720,578   | -          |

Total Expenses (excluding Income Tax and

Property Taxes)

|           |         |       |           |        |         |         |       |         |           |
|-----------|---------|-------|-----------|--------|---------|---------|-------|---------|-----------|
| 3,898,966 | 950,914 | 7,102 | 1,827,546 | 87,384 | 723,493 | 109,248 | 5,567 | 187,712 | 3,898,966 |
|-----------|---------|-------|-----------|--------|---------|---------|-------|---------|-----------|

Arizona-American Water Company / Paradise Valley Water District

Test Year Using 12 Months Ended December 2004

Cost of Service Study, Using Commodity Demand Method

Allocation of Rate Base by Function

90% Demand

Gallons Sold Corrected

Exhibit  
Schedule G-5  
Page 1  
Witness: Kozoman  
Revised  
Corrected

| Line No. | Rate Base                                   | Adjusted   | Demand    | Commodity | Customer | Meter   | Service   | Totals     | Difference |
|----------|---|------------|-----------|-----------|----------|---------|-----------|------------|------------|
| 1        | Plant minus (Accumulated Depreciation       | 11,651,215 | 6,129,326 | 3,301,922 | 649,061  | 318,602 | 1,252,305 | 11,651,215 | 0          |
| 2        | Contributions in Aid of Construction        |            |           |           |          |         |           |            |            |
| 3        | Advances in Aid of Construction,            |            |           |           |          |         |           |            |            |
| 4        | Meter Deposits and Deferred Income Tax)     |            |           |           |          |         |           |            |            |
| 5        |   |            |           |           |          |         |           |            |            |
| 6        |   |            |           |           |          |         |           |            |            |
| 7        |   |            |           |           |          |         |           |            |            |
| 8        |   |            |           |           |          |         |           |            |            |
| 9        |   |            |           |           |          |         |           |            |            |
| 10       |   |            |           |           |          |         |           |            |            |
| 11       |   |            |           |           |          |         |           |            |            |
| 12       | Revenue Requirement from G-8                | 5,347,725  | 2,968,019 | 1,810,346 | 262,309  | 238,473 | 68,577    |            |            |
| 13       | Percent of Total                            | 100.00%    | 55.50%    | 33.85%    | 4.91%    | 4.46%   | 1.28%     |            |            |
| 14       | Property Taxes Allocation at Computed Rates |            |           |           |          |         |           |            |            |
| 15       |   | 213,241    | 118,350   | 72,188    | 10,460   | 9,509   | 2,735     |            |            |
| 16       |   |            |           |           |          |         |           |            |            |
|          |   | 11,651,215 | 6,129,326 | 3,301,922 | 649,061  | 318,602 | 1,252,305 | 11,651,215 |            |

Arizona-American Water Company / Paradise Valley Water District

Test Year Using 12 Months Ended December 2004

Exhibit  
Schedule  
Page  
Witness: Kozoman

G-5

2

90% Demand  
Allocation of Plant  
Gallons Sold Corrected

Revised  
Corrected

| Line No. | Account No.                                       | Plant Description                | Original Cost | Accumulated Depreciation | Net Plant Values | Demand      | Commodity | Customer | Meter    | Service   | Totals      | Difference | ALLOCATION FACTOR                         |
|----------|---|----------------------------------|---------------|--------------------------|------------------|-------------|-----------|----------|----------|-----------|-------------|------------|---|
| 1        | 100.4   | Property Held For Future Use     | 138,682       | -                        | 138,682          | 124,814     | 13,868    |          |          |           | 138,682     | -          | 90%wells demandwells 10%commodity         |
| 2        | 301   | Organization                     | 15,350        | -                        | 492,688          | 443,419     | 49,269    |          |          |           | 492,688     | -          | (0) 90%wells demandwells 10%commodity     |
| 3        | 303.5   | Dist. Res. & Standpipe Land      | 8,324         | -                        | 8,324            | 7,492       | 832       |          |          |           | 8,324       | -          | 90%wells demandwells 10%commodity         |
| 4        | 304.1   | SS Structures & Improvements     | 7,953         | 13,190                   | (5,236)          | (4,713)     | (524)     |          |          |           | (5,236)     | -          | 90%wells demandwells 10%commodity         |
| 5        | 304.2   | Pumping Structures & Improve     | 69,131        | (22,038)                 | 91,169           | 82,052      | 9,117     |          |          |           | 91,169      | -          | 90%wells demandwells 10%commodity         |
| 6        | 304.3   | WT Structures & Improvements     | 3,038,848     | 454,776                  | 2,584,072        | 2,325,665   | 258,407   |          |          |           | 2,584,072   | -          | 90%wells demandwells 10%commodity         |
| 7        | 304.4   | Grit Removal Equipment           | 23,864        | 806                      | 23,058           | 20,752      | 2,306     |          |          |           | 23,058      | -          | 90%wells demandwells 10%commodity         |
| 8        | 304.5   | Struct & Imp AG                  | 15,173        | 3,295                    | 11,878           | 10,690      | 1,188     |          |          |           | 11,878      | -          | (0) 90%wells demandwells 10%commodity     |
| 9        | 304.7   | Stores Shop & Gar. Structures    | 93,285        | 63,784                   | 29,500           | 26,550      | 2,950     |          |          |           | 29,500      | -          | 90%wells demandwells 10%commodity         |
| 10       | 304.8   | Struct & Imp Misc                | 149,284       | 14,179                   | 135,105          | 121,595     | 13,511    |          |          |           | 135,105     | -          | 90%wells demandwells 10%commodity         |
| 11       | 307   | Wells & Springs                  | 1,252,563     | 526,585                  | 725,978          | 653,380     | 72,598    |          |          |           | 725,978     | -          | 90%wells demandwells 10%commodity         |
| 12       | 311.2   | Elec Pumping Equipment           | 3,337,081     | 993,356                  | 2,343,725        | 2,109,352   | 234,372   |          |          |           | 2,343,725   | -          | 90%wells demandwells 10%commodity         |
| 13       | 311.3   | Diesel Pumping Equipment         | 59,421        | 18,735                   | 40,686           | 36,617      | 4,069     |          |          |           | 40,686      | -          | 90%wells demandwells 10%commodity         |
| 14       | 320   | Water Treatment Equipment        | 5,825,149     | 2,867,630                | 2,957,519        | 2,857,752   | 2,661,767 |          |          |           | 2,957,519   | -          | 10%water treatment demand water treatment |
| 15       | 330   | Dist Reservoirs & Standpipes     | 912,619       | 140,643                  | 771,976          | 694,778     | 77,198    |          |          |           | 771,976     | -          | 90%wells demandwells 10%commodity         |
| 16       | 331.1   | T & D Mains - 4" & Less          | 706,252       | 488,966                  | 217,286          | 195,557     | 21,729    |          |          |           | 217,286     | -          | 90%wells demandwells 10%commodity         |
| 17       | 331.2   | T & D Mains - 6" - 8"            | 3,974,977     | 2,012,781                | 1,962,196        | 1,765,976   | 196,220   |          |          |           | 1,962,196   | -          | 90%wells demandwells 10%commodity         |
| 18       | 331.3   | T & D Mains - 10" or More        | 5,485,424     | 1,392,736                | 4,092,688        | 3,663,420   | 409,269   |          |          |           | 4,092,688   | -          | 90%wells demandwells 10%commodity         |
| 19       | 333   | Services                         | 2,178,857     | 924,802                  | 1,254,055        |             |           |          |          | 1,254,055 | 1,254,055   | -          | 100%servicescustomer                      |
| 20       | 334   | Meters                           | 328,579       | 90,243                   | 238,336          |             |           | 238,336  |          |           | 238,336     | -          | 100%customers                             |
| 21       | 334   | Meter Installations              | 103,799       | 7,074                    | 96,725           |             |           | 96,725   |          |           | 96,725      | -          | 100%customers                             |
| 22       | 335   | Hydrants                         | 746,904       | 362,444                  | 384,460          |             |           | 384,460  |          |           | 384,460     | -          | 100%firehydrantcustomers                  |
| 23       | 339   | Other P/e CPS                    |               |                          |                  |             |           |          |          |           |             | -          | 100%firehydrantcustomers                  |
| 24       | 340.1   | Office Furniture                 | 43,931        | 19,546                   | 24,384           |             |           | 24,384   |          |           | 24,384      | -          | 100%office furniturecustomer              |
| 25       | 340.2   | Computers & Peripherals          | 98,019        | 114,016                  | (15,997)         |             |           | (15,997) |          |           | (15,997)    | -          | 100%office furniturecustomer              |
| 26       | 340.3   | Computer Software                | 134,174       | 171,171                  | (36,997)         |             |           | (36,997) |          |           | (36,997)    | -          | 100%office furniturecustomer              |
| 27       | 340.5   | Other Office Equipment           | 25,224        | 7,015                    | 18,209           |             |           | 18,209   |          |           | 18,209      | -          | 100%office furniturecustomer              |
| 28       | 341.1   | Trans. Equip. - Light Trucks     | 2,882         | 20,122                   | (17,240)         | (4,310)     |           | (12,930) |          |           | (17,240)    | -          | 25%transdemand 75%transcustomer           |
| 29       | 341.3   | Trans. Equip. - Automobiles      | 19,307        | 16,087                   | 3,220            | 805         |           | 2,415    |          |           | 3,220       | -          | 25%transdemand 75%transcustomer           |
| 30       | 341.4   | Trans. Equip. - Garage Equipment | 13,506        | 1,857                    | 11,749           | 2,937       |           | 8,812    |          |           | 11,749      | -          | 25%transdemand 75%transcustomer           |
| 31       | 343   | Tools Shop & Garage Equipment    | 83,291        | 24,816                   | 58,475           |             |           | 58,475   |          |           | 58,475      | -          | 100%customer                              |
| 32       | 345   | Power Operated Equipment         | 147,066       | 46,243                   | 100,823          | 25,206      |           | 75,617   |          |           | 100,823     | -          | 25%transdemand 75%transcustomer           |
| 33       | 346   | Communication Equipment          | 284,556       | 140,452                  | 144,104          | 36,026      |           | 108,078  |          |           | 144,104     | -          | 25%communicationsdemand 75%transcustomer  |
| 34       | 346.3   | Comm Equip Other                 | 81,331        | 35,285                   | 46,046           | 11,512      |           | 34,535   |          |           | 46,046      | -          | 25%communicationsdemand 75%transcustomer  |
| 35       | Subtotal of Plant and Accum. Depr.                |                                  | 29,404,906    | 10,473,260               | 18,931,646       | 12,665,325  | 4,028,144 | 649,061  | 335,061  | 1,254,055 | 18,931,646  | -          |   |
| 36       | Allocated Plant                                   |                                  | 73,781        | 30,033                   | 43,748           | 39,373      | 4,375     |          |          |           | 43,748      | -          |   |
| 37       | Regulatory Asset                                  |                                  | 950           |                          | 950              | 855         | 95        |          |          |           | 950         | -          |   |
| 38       | Total Plant and Subtotal Accumulated Depreciation |                                  | 29,479,537    | 10,503,293               | 18,976,344       | 12,705,553  | 4,032,514 | 649,061  | 335,061  | 1,254,055 | 18,976,344  | -          |   |
| 39       | Minus UPIS Removal Cost                           |                                  |               | (85,866)                 | \$65,866         | 59,280      | 6,587     |          |          |           | 65,866      | -          |   |
| 40       | Plus UPIS Scrap Meters                            |                                  |               | 14,709                   | (14,709)         |             |           |          | (14,709) |           | (14,709)    | -          |   |
| 41       | Minus UPIS Original Cost Not Classified           |                                  |               | (538,267)                | \$538,267        | 484,440     | 53,827    |          |          |           | 538,267     | -          |   |
| 42       | Total Accumulated Depr. & Subtotal                |                                  |               | 9,913,869                | 19,555,758       | 13,249,273  | 4,093,027 | 649,061  | 320,352  | 1,254,055 | 19,555,758  | -          |   |
| 43       | Minus Customers' Advances for Construction        |                                  |               |                          | (635,912)        | (572,321)   | (63,591)  |          |          |           | (635,912)   | -          |   |
| 44       | Minus Contributions in Aid of Construction        |                                  |               |                          | (6,486,559)      | (5,837,903) | (648,656) |          |          |           | (6,486,559) | -          |   |
| 45       | Minus Deferred Taxes                              |                                  |               |                          | (1,139,528)      | (1,025,575) | (113,953) |          |          |           | (1,139,528) | -          |   |
| 46       | Minus Customer Deposits                           |                                  |               |                          | (3,500)          |             |           |          | (1,750)  | (1,750)   | (3,500)     | -          |   |
| 47       | Plus Deferred Debits                              |                                  |               |                          | 182,814          | 164,532     | 18,281    |          |          |           | 182,814     | -          |   |
| 48       | Plus Working Capital                              |                                  |               |                          | 168,133          | 151,320     | 16,813    |          |          |           | 168,133     | -          |   |
| 49       | Rate Bases  |                                  |               |                          | 11,851,215       | 6,129,326   | 3,301,322 | 649,061  | 318,602  | 1,252,305 | 11,851,215  | -          |   |

Exhibit  
Schedule  
Page  
Witness: Kozoman

Test Year Using 12 Months Ended December 2004

### Cost of Service Study, Using Commodity Demand Method

### Allocation of Expenses to Functions

**90% Demand**

Line Gallons Sold Corrected

| Line No. | Gallons Sold                                   | Corrected | Sch. E-6 Actual | Adjust- ment | Adjust. #     | Adjusted  | Demand    | Commodity | Customer | Meter | Corrected Service | Totals    | Difference | ALLOCATION FACTOR                             |
|----------|--|-----------|-----------------|--------------|---------------|-----------|-----------|-----------|----------|-------|-------------------|-----------|------------|---|
| 1        | OPERATING EXPENSES                             |           |                 |              |               |           |           |           |          |       |                   |           |            |   |
| 2        | Source of Supply Expenses                      |           | 70,292          | (3,000)      | B-1           | 67,292    | 60,563    | 6,729     |          |       |                   | 67,292    | 0          | 90%wells demand well 10%commodity             |
| 3        | Pumping Expenses                               |           |                 |              |               |           |           |           |          |       |                   | -         | 0          |   |
| 4        | Purchased Power                                |           | 952,963         | (140,651)    | B-2           | 812,312   |           | 812,312   |          |       |                   | 812,312   | 0          | 100%commodity                                 |
| 5        | Pumping Expense                                |           | 4,416           |              |               | 4,416     |           | 4,416     |          |       |                   | 4,416     | 0          | 100%commodity                                 |
| 6        | Water Treatment Expenses                       |           |                 |              |               |           |           |           |          |       |                   | -         | 0          |   |
| 7        | Chemicals                                      |           | 16,499          |              |               | 16,499    | 1,650     | 14,849    |          |       |                   | 16,499    | 0          | 10%water treatment demand water treatment 90% |
| 8        | Water Treatment Expense                        |           | 65,885          | (118,919)    | B-12/B-1      | (53,034)  | (5,303)   | (47,731)  |          |       |                   | (53,034)  | 0          | 10%water treatment demand water treatment 90% |
| 9        | Transmission & Distribution Expense            |           | 74,437          |              |               | 74,437    | 86,993    | 7,444     |          |       |                   | 74,437    | 0          | 90%main demand mains 10%commodity             |
| 10       | Customer Accounting Expense                    |           | 62,854          |              |               | 62,854    |           |           | 62,854   |       |                   | 62,854    | 0          | 100%customer                                  |
| 11       | Administrative & General                       |           | 913,274         | 405,659      | B-1,B-3,B-4,B | 1,318,933 | 1,187,040 | 131,893   |          |       |                   | 1,318,933 | 0          | 90%wells demand well 10%commodity             |
| 12       | Operations Labor                               |           | 440,726         | 82,306       | B-11          | 523,032   | 470,729   | 52,303    |          |       |                   | 523,032   | 0          | 90%wells demand well 10%commodity             |
| 13       | MAINTENANCE EXPENSES                           |           |                 |              |               |           |           |           |          |       |                   |           |            |   |
| 14       | Source of Supply                               |           | 14,552          | -            | B-9/B-10      | 14,552    | 13,097    | 1,455     |          |       |                   | 14,552    | (0)        | 90%wells demand well 10%commodity             |
| 15       | Pumping  |           | 16,309          | (16,309)     | C-1           | 0         |           |           |          |       |                   | -         | 0          |   |
| 16       | Water Treatment                                |           | 77,952          | (83,812)     | C-1           | (5,860)   | (586)     | (5,274)   |          |       |                   | (5,860)   | 0          | 10%water treatment demand water treatment 90% |
| 17       | Transmission & Distribution                    |           | 140,049         |              |               | 140,049   | 126,044   | 14,005    |          |       |                   | 140,049   | 0          | 90%wells demand well 10%commodity             |
| 18       | Administrative & General                       |           | 784             | (651)        |               | 133       | 120       | 13        |          |       |                   | 133       | 0          | 90%wells demand well 10%commodity             |
| 19       | Maintenance Labor                              |           | 95,935          | 52,121       | C-2/C-3       | 148,056   | 133,250   | 14,806    |          |       |                   | 148,056   | 0          | 90%wells demand well 10%commodity             |
| 20       | Payroll Taxes                                  |           |                 |              |               | 54,716    | 49,244    | 5,472     |          |       |                   | 54,716    | 0          | 90%wells demand well 10%commodity             |
| 21       | Property Taxes Allocated on Sch. G-5, P 1      |           |                 |              |               |           |           |           |          |       |                   |           |            |   |
| 22       | Depreciation Allocated on Sch. G-6, P2         |           |                 |              |               |           |           |           |          |       |                   |           |            |   |
| 23       | State Income Tax Allocated on Sch. G-1 & G-2   |           |                 |              |               |           |           |           |          |       |                   |           |            |   |
| 24       | Federal Income Tax Allocated on Sch. G-1 & G-2 |           |                 |              |               |           |           |           |          |       |                   |           |            |   |
| 25       | Totals   |           |                 |              |               |           |           |           |          |       |                   |           |            |   |
|          |  |           |                 |              |               | 3,178,388 | 2,102,841 | 1,012,693 | 62,854   | 0     |                   | 3,178,388 | (0)        |   |

Arizona-American Water Company / Paradise Valley Water District  
Worksheet for Adjustments to Expenses  
for Schedule G-6, Page 1  
80% Demand  
Gallons Sold Corrected

|     |   | OPERATING EXPENSES               |                                  |                                   |       | MAINTENANCE  |        |                         |       | Excluded    |                |
|-----|---|----------------------------------|----------------------------------|-----------------------------------|-------|--------------|--------|-------------------------|-------|-------------|----------------|
|     |   | Water Treatment and Distribution |                                  | Customer and Admin and Operations |       | Transmission |        | Customer and Accounting |       | Adjustments |                |
|     |   | Pumping Exp                      | Water Treatment and Distribution | General                           | Labor | General      | Labor  | General                 | Labor | Found       | Elsewhere on G |
|     |   | Source of Supply                 |                                  |                                   |       |              |        |                         |       | Check Sum   | Difference     |
| (B) | Adjustments from C-2  |                                  |                                  |                                   |       |              |        |                         |       |             |                |
| 1   | Adjustment to exclude Miller Road Treatment Facility operating expenses included in general ledger      | (3,000)                          | (58,971)                         | (12,222)                          |       |              |        |                         |       | (74,193)    | -              |
| 2   | Adjustment to normalize purchased power   |                                  | (140,651)                        | 1,616                             |       |              |        |                         |       | (140,651)   | -              |
| 3   | Adjustment to normalize office lease expenses   |                                  |                                  | 18,241                            |       |              |        |                         |       | 1,616       | -              |
| 4   | Adjustment to reclassify office lease expenses  |                                  |                                  | 200,566                           |       |              |        |                         |       | 18,241      | -              |
| 5   | Adjustment to normalize group insurance expense based on current group insurance premiums               |                                  |                                  | 62,478                            |       |              |        |                         |       | 200,566     | -              |
| 6   | Adjustment to include normalized OFEB expense not posted to general ledger                              |                                  |                                  | 94,280                            |       |              |        |                         |       | 62,478      | -              |
| 7   | Adjustment to normalize amortization of rate case expense based on projected deferred rate case costs   |                                  |                                  | 35,409                            |       |              |        |                         |       | 94,280      | -              |
| 8   | Adjustment to include pension expense not posted to general ledger                                      |                                  |                                  | 33,552                            |       |              |        |                         |       | 35,409      | -              |
| 9   | Adjustment to normalize amortization of write-off of materials and supplies inventory                   |                                  |                                  | (22,368)                          |       |              |        |                         |       | 33,552      | -              |
| 10  | Adjustment to normalize Operations Labor  |                                  |                                  | 82,306                            |       |              |        |                         |       | (22,368)    | -              |
| 11  | Adjustment to exclude Miller Road Treatment Facility operating labor included in general ledger         |                                  |                                  | (65,841)                          |       |              |        |                         |       | 82,306      | -              |
| 12  | Adjustment to exclude Miller Road Treatment Facility maintenance expenses included in general ledger    |                                  |                                  | (100,772)                         |       |              |        |                         |       | (65,841)    | -              |
| (C) |   |                                  |                                  |                                   |       |              |        |                         |       | (100,772)   | -              |
| 1   | Adjustment to Normalize Maintenance Labor   |                                  |                                  |                                   |       |              |        |                         |       | 52,296      | -              |
| 2   | Adjustment to exclude Miller Road Treatment Facility maintenance labor included in general ledger       |                                  |                                  |                                   |       |              |        |                         |       | (175)       | -              |
| (D) |   |                                  |                                  |                                   |       |              |        |                         |       | (60,527)    | -              |
| 1   | Depreciation expense adjustment based on adjusted utility plant in service and contributions            |                                  |                                  |                                   |       |              |        |                         |       | (14,879)    | -              |
| (E) |   |                                  |                                  |                                   |       |              |        |                         |       | 8,836       | -              |
| 1   | Adjustment to normalize property taxes  |                                  |                                  |                                   |       |              |        |                         |       | (5,018)     | -              |
| (F) |   |                                  |                                  |                                   |       |              |        |                         |       | (22,449)    | -              |
| 1   | Adjustment to normalize payroll taxes based on revised payroll rates & salaries effective April 1, 2005 |                                  |                                  |                                   |       |              |        |                         |       | (101,905)   | -              |
| 2   | Adjustment to exclude Miller Road Treatment Facility payroll tax expense included in general ledger     |                                  |                                  |                                   |       |              |        |                         |       | (66,439)    | -              |
| (G) |   |                                  |                                  |                                   |       |              |        |                         |       | (134,592)   | -              |
| 1   | Adjustment to State Income Taxes to reflect all adjustments included in application                     |                                  |                                  |                                   |       |              |        |                         |       | -           | -              |
| 2   | Adjustment to Federal Income Taxes to reflect all adjustments included in application                   |                                  |                                  |                                   |       |              |        |                         |       | -           | -              |
| (H) |   |                                  |                                  |                                   |       |              |        |                         |       | -           | -              |
| 1   | Adjustment to remove AFUDC earnings to reflect removal of construction work in progress from rate base  |                                  |                                  |                                   |       |              |        |                         |       | -           | -              |
| (I) |   |                                  |                                  |                                   |       |              |        |                         |       | -           | -              |
| 1   | Adjustment to reflect synchronized interest expense   |                                  |                                  |                                   |       |              |        |                         |       | -           | -              |
| (a) | Re-allocate Water Treatment Expense to Adm. & Gen. Oper.  |                                  |                                  |                                   |       |              |        |                         |       | -           | -              |
| (b) | Re-allocate Water Treatment Expense to Adm. & Gen. Maint.   |                                  |                                  |                                   |       |              |        |                         |       | -           | -              |
|     |   | (3,000)                          | (140,651)                        | (118,919)                         | -     | 405,659      | 82,306 | -                       | -     | (52,121)    | (220,227)      |
|     |   |                                  |                                  |                                   |       |              |        |                         |       | (396,972)   | (220,227)      |
|     |   |                                  |                                  |                                   |       |              |        |                         |       | 176,744     | (220,227)      |
|     |   |                                  |                                  |                                   |       |              |        |                         |       | 176,744     | (220,227)      |

Adjustments to Transfer to G6 page 1  
G6 P1 Checksum

Arizona-American Water Company / Paradise Valley Water District

Test Year Using 12 Months Ended December 2004

Allocation of Depreciation Expense to Functions

90% Demand

Gallons Sold Corrected

Exhibit

Schedule G-6

Page 2

Witness: Kozoman

Revised

Corrected

| Line No. | NARUC Account   | Plant Description             | Original Cost | Depreciation Rates | Depreciation Expense | Demand    | Commodity | Customer | Meter  | Service | Totals    | Differ. | ALLOCATION FACTOR                                 |
|----------|---|-------------------------------|---------------|--------------------|----------------------|-----------|-----------|----------|--------|---------|-----------|---------|---|
| 1        | 100.4   | Property Held For Future Use  | \$138,682     | 0.00%              | -                    | \$ -      | -         | -        | -      | -       | -         | -       | -   |
| 2        | 301   | Organization                  | 15,350        | 0.00%              | -                    | -         | -         | -        | -      | -       | -         | -       | -   |
| 3        | 303.5   | Dist. Res. & Standpipe Land   | 8,324         | 0.00%              | -                    | -         | -         | -        | -      | -       | -         | -       | -   |
| 4        | 304.1   | SS Structures & Improvements  | 7,953         | 14.59%             | 1,160                | 1,044     | 116       | -        | -      | -       | 1,160     | -       | 90%wells demand wells10%commodity                 |
| 5        | 304.2   | Pumping Structures & Improve  | 69,131        | 3.95%              | 2,758                | 2,482     | 276       | -        | -      | -       | 2,758     | -       | 90%pumps demand pumps10%commodity                 |
| 6        | 304.3   | WT Structures & Improvements  | 3,038,848     | 2.00%              | 60,777               | 54,699    | 6,078     | -        | -      | -       | 60,777    | -       | 90%pumps demand pumps10%commodity                 |
| 7        | 304.4   | Grit Removal Equipment        | 23,864        | 1.50%              | 358                  | 322       | 36        | -        | -      | -       | 358       | -       | 90%pumps demand pumps10%commodity                 |
| 8        | 304.5   | Struct & Imp AG               | 15,173        | 0.00%              | -                    | -         | -         | -        | -      | -       | -         | -       | -   |
| 9        | 304.7   | Stores Shop & Gar. Structures | 93,285        | 0.00%              | -                    | -         | -         | -        | -      | -       | -         | -       | -   |
| 10       | 304.8   | Struct & Imp Misc             | 149,284       | 0.00%              | -                    | -         | -         | -        | -      | -       | -         | -       | -   |
| 11       | 307   | Wells & Springs               | 1,252,563     | 2.48%              | 31,064               | 27,957    | 3,106     | -        | -      | -       | 31,064    | -       | 90%wells demand wells10%commodity                 |
| 12       | 311.2   | Elec Pumping Equipment        | 3,337,081     | 4.39%              | 146,498              | 131,848   | 14,650    | -        | -      | -       | 146,498   | -       | 90%wells demand wells10%commodity                 |
| 13       | 311.3   | Diesel Pumping Equipment      | 59,421        | 4.39%              | 2,609                | 2,348     | 261       | -        | -      | -       | 2,609     | -       | -   |
| 14       | 320   | Water Treatment Equipment     | 5,825,149     | 7.06%              | 411,255              | 41,126    | 370,130   | -        | -      | -       | 411,255   | -       | 10%watertreatment demand watertreatment 90%commod |
| 15       | 330   | Dist Reservoirs & Standpipes  | 912,619       | 3.15%              | 28,747               | 25,873    | 2,875     | -        | -      | -       | 28,747    | -       | 90%wells demand wells10%commodity                 |
| 16       | 331.1   | T & D Mains - 4" & Less       | 706,252       | 4.17%              | 29,451               | 26,506    | 2,945     | -        | -      | -       | 29,451    | -       | 90%wells demand wells10%commodity                 |
| 17       | 331.2   | T & D Mains - 6" - 8"         | 3,974,977     | 2.52%              | 100,169              | 90,152    | 10,017    | -        | -      | -       | 100,169   | -       | 90%wells demand wells10%commodity                 |
| 18       | 331.3   | T & D Mains - 10" or More     | 5,485,424     | 2.34%              | 128,359              | 115,523   | 12,836    | -        | -      | -       | 128,359   | -       | 90%wells demand wells10%commodity                 |
| 19       | 333   | Services                      | 2,178,857     | 4.72%              | 102,842              | -         | -         | -        | -      | 102,842 | 102,842   | -       | 100%services                                      |
| 20       | 334   | Meters                        | 328,579       | 7.21%              | 23,691               | -         | -         | -        | 23,691 | -       | 23,691    | -       | 100%eters   |
| 21       | 334   | Meter Installations           | 103,799       | 1.51%              | 1,567                | -         | -         | -        | 1,567  | -       | 1,567     | -       | 100%eters   |
| 22       | 335   | Hydrants                      | 746,904       | 2.10%              | 15,685               | -         | -         | 15,685   | -      | -       | 15,685    | -       | firehydrant100%customer                           |
| 23       | 339   | Other P/e CPS                 | -             | 0.00%              | -                    | -         | -         | -        | -      | -       | -         | -       | -   |
| 24       | 340.1   | Office Furniture              | 43,931        | 4.04%              | 1,775                | -         | -         | 1,775    | -      | -       | 1,775     | -       | officefurniture 100%customer                      |
| 25       | 340.2   | Computers & Peripherals       | 98,019        | 15.89%             | 15,575               | -         | -         | 15,575   | -      | -       | 15,575    | -       | officefurniture 100%customer                      |
| 26       | 340.3   | Computer Software             | 134,174       | 37.71%             | 50,597               | -         | -         | 50,597   | -      | -       | 50,597    | -       | officefurniture 100%customer                      |
| 27       | 340.5   | Other Office Equipment        | 25,224        | 7.13%              | 1,798                | -         | -         | 1,798    | -      | -       | 1,798     | -       | officefurniture 100%customer                      |
| 28       | 341.1   | Trans. Equip. - Light Trucks  | 2,882         | 28.05%             | 809                  | 202       | -         | 606      | -      | -       | 809       | -       | 25%transdemand trans75%customer                   |
| 29       | 341.3   | Trans. Equip. - Automobiles   | 19,307        | 7.80%              | 1,506                | 376       | -         | 1,129    | -      | -       | 1,506     | -       | 25%transdemand trans75%customer                   |
| 30       | 341.4   | Trans. Equip. - Other         | 13,606        | 0.93%              | 127                  | 32        | -         | 95       | -      | -       | 127       | -       | 252%transdemand trans75%customer                  |
| 31       | 343   | Tools Shop & Garage Equipment | 83,291        | 3.61%              | 3,007                | -         | -         | 3,007    | -      | -       | 3,007     | -       | 100%customer                                      |
| 32       | 345   | Power Operated Equipment      | 147,066       | 4.64%              | 6,824                | 1,706     | -         | 5,118    | -      | -       | 6,824     | -       | 25%transdemand trans75%customer                   |
| 33       | 346   | Communication Equipment       | 284,556       | 9.76%              | 27,773               | 6,943     | -         | 20,829   | -      | -       | 27,773    | -       | 25%communicationsdemand communications75%customer |
| 34       | 346.3   | Comm Equip Other              | 81,331        | 7.91%              | 6,433                | 1,608     | -         | 4,825    | -      | -       | 6,433     | -       | 25%communicationsdemand communications75%customer |
| 35       | Allocated Plant / Corporate                               |                               | 73,781        | 4.29%              | 3,165                | 2,848     | 316       | -        | -      | -       | 3,165     | -       | 75%wells demand wells 25%commodity                |
| 36       | Plant and Subtotal of Depreciation                        |                               | 29,478,687    |                    | 1,206,379            | 533,597   | 423,641   | 121,040  | 25,258 | 102,842 | 1,206,379 | -       | (0)   |
| 37       |   |                               |               |                    |                      |           |           |          |        |         |           |         |   |
| 38       | Less Amortization of Contributions in Aid of Construction |                               |               |                    | (525,004)            | (472,504) | (52,500)  |          |        |         | (525,004) | -       | 90%wells demand wells10%commodity                 |
| 39       | Plus: Amortization of Mt. Mummy Acquisition Adj.          |                               |               |                    | 6,570                | 5,913     | 657       |          |        |         | 6,570     | -       | 90%wells demand wells10%commodity                 |
| 40       | Plus: Amortization of CPS                                 |                               |               |                    | 32,634               | 29,371    | 3,263     |          |        |         | 32,634    | -       | (0) 90%wells demand wells10%commodity             |
| 41       | Total Depreciation Expense                                |                               |               |                    | 720,578              | 96,376    | 375,061   | 121,040  | 25,258 | 102,842 | 720,578   | -       |   |

Arizona-American Water Company / Paradise Valley Water District

Test Year Using 12 Months Ended December 2004

Summary of Commodity - Demand Method Functions Factors

90% Demand

Gallons Sold Corrected

Exhibit  
Schedule G-7  
Page 1  
Witness: Kozoman  
Revised  
Corrected

Line

No.

1  
2 Description  
3 Commodity  
4 Demand  
5 Customer  
6 Services  
7 Meters  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

| 5/8" x 3/4" | 3/4"  | 1"     | 1 1/2" | 2"     | 3"    | 4"    | 6"    | Totals  |
|-------------|-------|--------|--------|--------|-------|-------|-------|---------|
| 19.76%      | 0.02% | 45.26% | 2.10%  | 19.89% | 4.21% | 0.00% | 8.75% | 100.00% |
| 24.00%      | 0.26% | 48.63% | 2.48%  | 19.21% | 2.23% | 0.25% | 2.95% | 100.00% |
| 51.36%      | 0.37% | 41.62% | 1.06%  | 5.14%  | 0.30% | 0.02% | 0.13% | 100.00% |
| 46.79%      | 0.34% | 42.84% | 1.18%  | 7.66%  | 0.60% | 0.06% | 0.53% | 100.00% |
| 24.47%      | 0.28% | 37.45% | 1.74%  | 30.64% | 2.38% | 0.24% | 2.80% | 100.00% |



**Arizona-American Water Company / Paradise Valley Water District**

Test Year Using 12 Months Ended December 2004

**COMMODITY - DEMAND METHOD FUNCTION FACTORS**

Plant and Depreciation Expense Allocations Functions

**90% Demand**

Gallons Sold Corrected

Exhibit

Schedule G-7

Page 2

Witness: Kozoman

Revised

Corrected

Line

No.

| <u>1</u> | <u>Description</u>        | <u>Total</u> | <u>Demand</u> | <u>Commodity</u> | <u>Customer</u> | <u>Meter</u> | <u>Service</u> |
|----------|---------------------------|--------------|---------------|------------------|-----------------|--------------|----------------|
| 3        | Wells                     | 1.00         | 90.00%        | 10.00%           |                 |              |                |
| 4        | Pumps & Equipment         | 1.00         | 90.00%        | 10.00%           |                 |              |                |
| 5        | Distribution Mains        | 1.00         | 90.00%        | 10.00%           |                 |              |                |
| 6        | Customer                  | 1.00         |               |                  | 100.00%         |              |                |
| 7        | Services                  | 1.00         |               |                  | 100.00%         |              |                |
| 8        | Meters                    | 1.00         |               |                  | 100.00%         |              |                |
| 9        | Fire Hydrants             | 1.00         |               |                  | 100.00%         |              |                |
| 10       | Transportation Equip.     | 1.00         | 25.00%        |                  | 75.00%          |              |                |
| 11       | Office Furniture          | 1.00         |               |                  | 100.00%         |              |                |
| 12       | Office Equipment          | 1.00         |               |                  | 100.00%         |              |                |
| 13       | Communication Equip.      | 1.00         | 25.00%        |                  | 75.00%          |              |                |
| 14       | Water Treatment Equipment | 1.00         | 10.00%        | 90.00%           |                 |              |                |

**Arizona-American Water Company / Paradise Valley Water District**

Test Year Using 12 Months Ended December 2004

Cost of Service Study, Using Commodity Demand Method

Development of Class Allocation Factors

**90% Demand**

Gallons Sold Corrected

Exhibit

Schedule G-7

Page 3

Witness: Kozoman

Revised & Corrected

**COMMODITY ALLOCATION FACTOR**

**DEMAND ALLOCATION FACTOR**

| Meter Size  | Total                           |             | Revised<br>Corrected | Meter<br>Size | Number    |        | Equivalent<br>Weight | Equivalent<br>Number |             |
|-------------|---------------------------------|-------------|----------------------|---------------|-----------|--------|----------------------|----------------------|-------------|
|             | Gallons                         | Percent     |                      |               | of Meters | and/or |                      | of Meters            | Percent     |
|             | (in 1,000's)<br>In Test<br>Year | of<br>Total |                      |               |           |        |                      | and/or               | of<br>Total |
| 5/8" x 3/4" | 628,145                         | 19.76%      | (b)                  | 5/8" x 3/4"   | 2,442     |        | 1                    | 2,442                | 24.00%      |
| 3/4"        | 695                             | 0.02%       |                      | 3/4"          | 18        |        | 1.5                  | 26                   | 0.26%       |
| 1"          | 1,438,565                       | 45.26%      |                      | 1"            | 1,979     |        | 2.5                  | 4,947                | 48.63%      |
| 1-1/2"      | 66,864                          | 2.10%       |                      | 1-1/2"        | 51        |        | 5.0                  | 253                  | 2.48%       |
| 2"          | 632,237                         | 19.89%      |                      | 2"            | 244       |        | 8.0                  | 1,954                | 19.21%      |
| 3"          | 133,960                         | 4.21%       |                      | 3"            | 14        |        | 16.0                 | 227                  | 2.23%       |
| 4"          | -                               | 0.00%       |                      | 4"            | 1         |        | 25.0                 | 25                   | 0.25%       |
| 6"          | 278,005                         | 8.75%       |                      | 6"            | 6         |        | 50.0                 | 300                  | 2.95%       |
| Totals      | 3,178,470                       | 100.00%     |                      | Totals        | 4,754     |        |                      | 10,174               | 100.00%     |

**CUSTOMER ALLOCATION FACTOR**

**SERVICES ALLOCATION FACTOR (a)**

| Meter<br>Size | Number<br>of Meters | Percent<br>of<br>Total | (b) | Meter<br>Size | Number<br>of<br>Services | Install-<br>ation<br>Cost | Weighted<br>Number<br>of<br>Services | Percent<br>of<br>Total |
|---------------|---------------------|------------------------|-----|---------------|--------------------------|---------------------------|--------------------------------------|------------------------|
|               |                     |                        |     |               |                          |                           |                                      |                        |
| 5/8" x 3/4"   | 2,442               | 51.36%                 | (b) | 5/8" x 3/4"   | 2,442                    | \$ 385.00                 | 940,202                              | 46.79%                 |
| 3/4"          | 18                  | 0.37%                  |     | 3/4"          | 18                       | 385.00                    | 6,770                                | 0.34%                  |
| 1"            | 1,979               | 41.62%                 |     | 1"            | 1,979                    | 435.00                    | 860,793                              | 42.84%                 |
| 1-1/2"        | 51                  | 1.06%                  |     | 1-1/2"        | 51                       | 470.00                    | 23,735                               | 1.18%                  |
| 2"            | 244                 | 5.14%                  |     | 2"            | 244                      | 630.00                    | 153,878                              | 7.66%                  |
| 3"            | 14                  | 0.30%                  |     | 3"            | 14                       | 845.00                    | 11,971                               | 0.60%                  |
| 4"            | 1                   | 0.02%                  |     | 4"            | 1                        | 1,230.00                  | 1,230                                | 0.06%                  |
| 6"            | 6                   | 0.13%                  |     | 6"            | 6                        | 1,770.00                  | 10,620                               | 0.53%                  |
| Totals        | 4,754               | 100.00%                |     | Totals        | 4,754                    |                           | 2,009,198                            | 100.00%                |

**METER ALLOCATION FACTOR (a) (b)**

| Meter<br>Size | Number<br>of Meters | Meter<br>Cost | Weighted<br>Dollars<br>of Meters | Percent<br>of<br>Total |
|---------------|---------------------|---------------|----------------------------------|------------------------|
| 5/8" x 3/4"   | 2,442               | \$ 135.00     | 329,681                          | 24.47%                 |
| 3/4"          | 18                  | 215.00        | 3,780                            | 0.28%                  |
| 1"            | 1,979               | 255.00        | 504,603                          | 37.45%                 |
| 1-1/2"        | 51                  | 465.00        | 23,483                           | 1.74%                  |
| 2"            | 244                 | 1,690.00      | 412,783                          | 30.64%                 |
| 3"            | 14                  | 2,265.00      | 32,088                           | 2.38%                  |
| 4"            | 1                   | 3,245.00      | 3,245                            | 0.24%                  |
| 6"            | 6                   | 6,280.00      | 37,680                           | 2.80%                  |
| Totals        | 4,754               |               | 1,347,342                        | 100.00%                |

(a) Meter and Service Line cost from Arizona Corporation Commission Memo of June 30, 2004 from Marlin Scott, Jr.. Meter costs based on compound meters. Cost of service line and meter is based on costs allowed for a compound meter installation.

(b) Includes Sales for Resale.

**Arizona-American Water Company / Paradise Valley Water District**

Test Year Using 12 Months Ended December 2004

Cost of Service Study Using Commodity / Demand Method

Computation of Monthly Minimums for Customer, Service, Meter  
Using Function Costs and Expenses

| Line No. | 90% Demand   | Gallons Sold Corrected | Customer | Service   | Meter   |
|----------|--|------------------------|----------|-----------|---------|
| 1        | Rate Bases from Schedule G-5, Page 1   |                        | 649,061  | 1,252,305 | 318,602 |
| 2        | Multiply by weighted Rate of Return for Debt ( From Schedule D-1)                |                        | 3.43%    | 3.43%     | 3.43%   |
| 3        | Required Operating Income - for Debt   |                        | 22,263   | 42,954    | 10,928  |
| 4        | Rate Bases   |                        | 649,061  | 1,252,305 | 318,602 |
| 5        | Weighted Rate of Return for Equity (From Schedule D-1)                           |                        | 4.41%    | 4.41%     | 4.41%   |
| 6        | Required Operating Income for Equity   |                        | 28,624   | 55,227    | 14,050  |
| 7        | Multiply by Revenue Conversion Factor (From Schedule C-3)                        |                        | 1,62860  | 1,62860   | 1,62860 |
| 8        | Equity Return plus Income tax component (Line 6 x Line 7)                        |                        | 46,616   | 89,942    | 22,882  |
| 9        |  |                        |          |           |         |
| 10       | Revenue Requirement for Debt Component, from Line 3                              |                        | 22,263   | 42,954    | 10,928  |
| 11       | Revenue Requirement for Equity and Income  |                        |          |           |         |
| 12       | Tax Component, from Line 8   |                        | 46,616   | 89,942    | 22,882  |
| 13       | Total Return Requirement with Income Tax   |                        | 68,879   | 132,896   | 33,810  |
| 14       | Misc. Revenues   |                        | (924)    |           |         |
| 15       | Property Tax Expense, from Schedule G-5, Page 1                                  |                        | 10,460   | 2,735     | 9,509   |
| 16       | Customer, Services and Meter Expenses (From Sch. G-6. Page 1)                    |                        | 62,854   | -         | -       |
| 17       | Dep. & Amort. Exp. / Customer, Services, and Meter Plant (From Sch. G-6, Page 2) |                        | 121,040  | 102,842   | 25,258  |
| 18       | Total Revenue Requirement / Customer, Meter & Service (Line 13+15+16+17)         |                        | 262,309  | 238,473   | 68,577  |
| 19       |  |                        |          |           |         |
| 20       | <b>Customer Charge</b>   |                        |          |           |         |
| 21       | Number of Bills =  | 4,754 times            | 57,053   |           |         |
| 22       |  |                        |          |           |         |
| 23       | <b>Charge per Bill</b>   |                        | \$ 4.60  |           |         |
| 24       | (Customer Revenue Requirement divided by Annualized Number of Bills)             |                        |          |           |         |
| 25       |  |                        |          |           |         |
| 26       | <b>Service Line and Meter Charge</b>   |                        |          |           |         |
| 27       | Equivalent 5/8 Meters  | 10,174 Times           |          | 122,085   | 122,085 |
| 28       |  |                        |          |           |         |
| 29       | <b>Charge per Equivalent Meter</b>   |                        | \$ 1.95  | \$ 0.56   |         |
| 30       |  |                        |          |           |         |

**CUSTOMER CHARGE:**

Monthly Minimum for 5/8 Inch Meter (with no water included in Minimum or Demand Charge)

|   |         |
|---|---------|
| Charge per Bill   | \$ 4.60 |
| Charge per Equivalent Service Line  | 1.95    |
| Charge per Equivalent Meter   | 0.56    |
| (Service and Meter Revenue Requirement divided by Annual Equivalent Meters) |         |
| Monthly Minimum for 5/8 Inch Meter, <b>WITHOUT</b> Demand Charge Included   | \$ 7.11 |

Exhibit  
Schedule G-8  
Page 1  
Witness: Kozoman  
Revised  
Corrected

**Arizona-American Water Company / Paradise Valley Water District**

Test Year Using 12 Months Ended December 2004

Cost of Service Study Using Commodity / Demand Method

Computation of Monthly Minimums for Demand Charge

**90% Demand**

**Gallons Sold Corrected**

Exhibit  
Schedule G-8  
Page 2  
Witness: Kozoman  
Revised  
Corrected

| Line No. | DEMAND CHARGE:  | Demand Charge | Capacity Ratio | Demand Charge | Customer Charge | Service Charge | Meter Charge | Monthly Minimum |
|----------|---|---------------|----------------|---------------|-----------------|----------------|--------------|-----------------|
| 1        |   |               |                |               |                 |                |              |                 |
| 2        | Rate Base (From Schedule G-5, Page 1)                             |               |                |               |                 |                |              |                 |
| 3        | Multiply by weighted Rate of Return for Debt ( From Schedule D-1) |               |                |               |                 |                |              |                 |
| 4        | Required Operating Income - for Debt (Line 2 x Line 3)            |               |                |               |                 |                |              |                 |
| 5        | Rate Base   |               |                |               |                 |                |              |                 |
| 6        | Weighted Rate of Return for Equity (From Schedule D-1)            |               |                |               |                 |                |              |                 |
| 7        | Required Operating Income for Equity                              |               |                |               |                 |                |              |                 |
| 8        | Multiply by Revenue Conversion Factor (From Schedule C-3)         |               |                |               |                 |                |              |                 |
| 9        | Equity Return plus Income tax component (Line 7 x Line 8)         |               |                |               |                 |                |              |                 |
| 10       |   |               |                |               |                 |                |              |                 |
| 11       | Revenue Requirement for Debt Component, from Line 4               |               |                |               |                 |                |              |                 |
| 12       | Revenue Requirement for Equity and Income                         |               |                |               |                 |                |              |                 |
| 13       | Tax Component, from Line 9  |               |                |               |                 |                |              |                 |
| 14       |   |               |                |               |                 |                |              |                 |
| 15       | Property Tax Expense, from Schedule G-5, Page 1                   |               |                |               |                 |                |              |                 |
| 16       | Demand Expenses, from Schedule G-6, Page 1                        |               |                |               |                 |                |              |                 |
| 17       | Depreciation, from Schedule G-6, Page 2                           |               |                |               |                 |                |              |                 |
| 18       | Totals  |               |                |               |                 |                |              |                 |
| 19       | Total Revenue Requirement / Demand Component                      |               |                |               |                 |                |              |                 |
| 20       | Equivalent Number of 5/8Inch Meters billings                      |               |                |               |                 |                |              |                 |
| 21       | Demand Charge for 5/8 Inch Meter                                  |               |                |               |                 |                |              |                 |
| 22       |   |               |                |               |                 |                |              |                 |
| 23       |   |               |                |               |                 |                |              |                 |
| 24       |   |               |                |               |                 |                |              |                 |
| 25       | Monthly Minimum Charge  |               |                |               |                 |                |              |                 |
| 26       | 5/8 x 3/4 Inch Meter  | \$ 24.31      | 1              | \$ 24.31      | \$ 4.60         | \$ 1.95        | \$ 0.56      | \$ 31.42        |
| 27       | 3/4 Inch Meter  | 24.31         | 1.5            | 36.47         | 4.60            | 2.93           | 0.84         | 44.84           |
| 28       | 1 Inch Meter  | 24.31         | 2.5            | 60.78         | 4.60            | 4.88           | 1.40         | 71.66           |
| 29       | 1 1/2 Inch Meter  | 24.31         | 5.0            | 121.56        | 4.60            | 9.77           | 2.81         | 138.73          |
| 30       | 2 Inch Meter  | 24.31         | 8.0            | 194.49        | 4.60            | 15.63          | 4.49         | 219.21          |
| 31       | 3 Inch Meter  | 24.31         | 16.0           | 388.98        | 4.60            | 31.25          | 8.99         | 433.82          |
| 32       | 4 Inch Meter  | 24.31         | 25.0           | 607.78        | 4.60            | 48.83          | 14.04        | 675.25          |
| 33       | 6 Inch Meter  | 24.31         | 50.0           | 1,215.56      | 4.60            | 97.67          | 28.09        | 1,345.91        |
| 34       |   |               |                |               |                 |                |              |                 |

5/8 Inch  
Meter

**Arizona-American Water Company / Paradise Valley Water District**

Test Year Using 12 Months Ended December 2004  
Cost of Service Study Using Commodity / Demand Method  
Computation Demand Charge and Commodity

Exhibit  
Schedule G-8  
Page 3  
Witness: Kozoman  
Revised  
Corrected

**90% Demand Gallons Sold Corrected**

| Line No. |  | Commodity        | Customer       | Service        | Meter          | Demand          |
|----------|--|------------------|----------------|----------------|----------------|-----------------|
| 1        | Rate Bases from Schedule G-5, Page 1                               | 3,301,922        | 649,061        | 1,252,305      | 318,602        | 6,129,326       |
| 2        | Multiply by weighted Rate of Return for Debt ( From Schedule D-1)  | 3.430%           | 3.430%         | 3.430%         | 3.430%         | 3.430%          |
| 3        | Required Operating Income - for Debt                               | 113,256          | 22,263         | 42,954         | 10,928         | 210,236         |
| 4        | Rate Bases from Schedule G-5, Page 1                               | 3,301,922        | 649,061        | 1,252,305      | 318,602        | 6,129,326       |
| 5        | Weighted Rate of Return for Equity (From Schedule D-1)             | 4.41%            | 4.41%          | 4.41%          | 4.41%          | 4.41%           |
| 6        | Required Operating Income for Equity                               | 145,615          | 28,624         | 55,227         | 14,050         | 270,303         |
| 7        | Multiply by Revenue Conversion Factor (From Schedule C-3)          | 1.62860          | 1.62860        | 1.62860        | 1.62860        | 1.62860         |
| 8        | Equity Return plus Income tax component (Line 6 x Line 7)          | 237,148          | 46,616         | 89,942         | 22,882         | 440,216         |
| 9        |  |                  |                |                |                |                 |
| 10       | Revenue Requirement for Debt Component, from Line 3                | 113,256          | 22,263         | 42,954         | 10,928         | 210,236         |
| 11       | Revenue Requirement for Equity and Income                          |                  |                |                |                |                 |
| 12       | Tax Component, from Line 8   | 237,148          | 46,616         | 89,942         | 22,882         | 440,216         |
| 13       | Total Return Requirement with Income Tax (Line 10 + Line 12)       | 350,404          | 68,879         | 132,896        | 33,810         | 650,452         |
| 14       | Less: Miscellaneous Revenues                                       | (924)            |                |                |                |                 |
| 15       | Property Taxes (Allocation from Schedule G-5, Page 1)              | 72,188           | 10,460         | 2,735          | 9,509          | 118,350         |
| 16       | Expenses (From Sch. G-6, Page 1)                                   | 1,012,693        | 62,854         | -              | -              | 2,102,841       |
| 17       | Depreciation and Amortization (From Schedule G-6, Page 2)          | 375,061          | 121,040        | 102,842        | 25,258         | 96,376          |
| 18       | Total Revenue Requirement by function                              | 1,810,346        | 262,309        | 238,473        | 68,577         | 2,968,019       |
| 19       | Gallons Sold   | 3,178,470        |                |                |                |                 |
| 20       | Computed Commodity Rate  | <u>\$ 0.5696</u> |                |                |                |                 |
| 21       | Number of Bills  |                  | 57,053         |                |                |                 |
| 22       | Equivalent Meters and Service Lines                                |                  |                | 122,085        | 122,085        | 122,085         |
| 23       | Customer Charge (line 18 divided by line 21)                       |                  | <u>\$ 4.60</u> |                |                |                 |
| 24       | Meter, Service Line & Demand Charge (Line 18 divided by Line 22)   |                  |                | <u>\$ 1.95</u> | <u>\$ 0.56</u> | <u>\$ 24.31</u> |
| 25       | Total Monthly Minimum Charge for a 5/8 Inch Meter (Sum of Customer |                  |                |                |                |                 |
| 26       | Service Line, Meter and Demand Charge on Lines 23 & Line 24)       |                  |                |                |                | <u>\$ 31.42</u> |

**Arizona-American Water Company / Paradise Valley Water District**

Test Year Using 12 Months Ended December 2004

Cost of Service Study Using Commodity / Demand Method

Computation of Break Over Point when of Computed Monthly

Minimums & Commodity Rate (Single Tier) From Cost of Service Study

Equals Proposed Revenues for 5/8 Inch Meter Residential Meter

90% Demand

Gallons Sold Corrected

Computed

Total

Exhibit

Schedule G-9

Page 1

Witness: Kozoman

Revised

Corrected

| Water Usage | Computed Demand | Computed Customer | Service Line | Computed Meter | Computed Commodity | Computed Charges & Costs | Revenues From Proposed Rates |                |               | Profit or (Loss) |
|-------------|-----------------|-------------------|--------------|----------------|--------------------|--------------------------|------------------------------|----------------|---------------|------------------|
|             | Charges         | Charges           | Charges      | Charges        | Charges            |                          | From Minimums                | From Commodity | Total Revenue |                  |
| -           | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | -                  | \$ 31.42                 | \$ 9.26                      | \$ -           | \$ 9.26       | \$ (22.16)       |
| 1,000       | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 0.57               | 31.99                    | 9.26                         | 0.79           | \$ 10.05      | (21.94)          |
| 2,000       | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 1.14               | 32.56                    | 9.26                         | 1.58           | \$ 10.84      | (21.72)          |
| 3,000       | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 1.71               | 33.13                    | 9.26                         | 2.37           | \$ 11.63      | (21.50)          |
| 4,000       | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 2.28               | 33.70                    | 9.26                         | 3.16           | \$ 12.42      | (21.28)          |
| 5,000       | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 2.85               | 34.27                    | 9.26                         | 3.95           | \$ 13.21      | (21.06)          |
| 6,000       | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 3.42               | 34.84                    | 9.26                         | 4.74           | \$ 14.00      | (20.84)          |
| 7,000       | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 3.99               | 35.41                    | 9.26                         | 5.53           | \$ 14.79      | (20.62)          |
| 8,000       | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 4.56               | 35.98                    | 9.26                         | 6.32           | \$ 15.58      | (20.40)          |
| 9,000       | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 5.13               | 36.55                    | 9.26                         | 7.11           | \$ 16.37      | (20.18)          |
| 10,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 5.70               | 37.12                    | 9.26                         | 7.90           | \$ 17.16      | (19.96)          |
| 11,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 6.27               | 37.69                    | 9.26                         | 8.69           | \$ 17.95      | (19.74)          |
| 12,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 6.83               | 38.26                    | 9.26                         | 9.48           | \$ 18.74      | (19.52)          |
| 13,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 7.40               | 38.83                    | 9.26                         | 10.27          | \$ 19.53      | (19.30)          |
| 14,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 7.97               | 39.40                    | 9.26                         | 11.06          | \$ 20.32      | (19.08)          |
| 15,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 8.54               | 39.97                    | 9.26                         | 11.85          | \$ 21.11      | (18.86)          |
| 16,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 9.11               | 40.54                    | 9.26                         | 12.64          | \$ 21.90      | (18.64)          |
| 17,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 9.68               | 41.11                    | 9.26                         | 13.43          | \$ 22.69      | (18.42)          |
| 18,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 10.25              | 41.68                    | 9.26                         | 14.22          | \$ 23.48      | (18.20)          |
| 19,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 10.82              | 42.25                    | 9.26                         | 15.01          | \$ 24.27      | (17.98)          |
| 20,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 11.39              | 42.82                    | 9.26                         | 15.80          | \$ 25.06      | (17.76)          |
| 21,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 11.96              | 43.38                    | 9.26                         | 16.59          | \$ 25.85      | (17.53)          |
| 22,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 12.53              | 43.95                    | 9.26                         | 17.38          | \$ 26.64      | (17.31)          |
| 23,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 13.10              | 44.52                    | 9.26                         | 18.17          | \$ 27.43      | (17.09)          |
| 24,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 13.67              | 45.09                    | 9.26                         | 18.96          | \$ 28.22      | (16.87)          |
| 25,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 14.24              | 45.66                    | 9.26                         | 19.75          | \$ 29.01      | (16.65)          |
| 26,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 14.81              | 46.23                    | 9.26                         | 21.50          | \$ 30.76      | (15.47)          |
| 27,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 15.38              | 46.80                    | 9.26                         | 23.25          | \$ 32.51      | (14.29)          |
| 28,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 15.95              | 47.37                    | 9.26                         | 25.00          | \$ 34.26      | (13.11)          |
| 29,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 16.52              | 47.94                    | 9.26                         | 26.75          | \$ 36.01      | (11.93)          |
| 30,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 17.09              | 48.51                    | 9.26                         | 28.50          | \$ 37.76      | (10.75)          |
| 31,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 17.66              | 49.08                    | 9.26                         | 30.25          | \$ 39.51      | (9.57)           |
| 32,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 18.23              | 49.65                    | 9.26                         | 32.00          | \$ 41.26      | (8.39)           |
| 33,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 18.80              | 50.22                    | 9.26                         | 33.75          | \$ 43.01      | (7.21)           |
| 34,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 19.37              | 50.79                    | 9.26                         | 35.50          | \$ 44.76      | (6.03)           |
| 35,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 19.93              | 51.36                    | 9.26                         | 37.25          | \$ 46.51      | (4.85)           |
| 36,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 20.50              | 51.93                    | 9.26                         | 39.00          | \$ 48.26      | (3.67)           |
| 37,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 21.07              | 52.50                    | 9.26                         | 40.75          | \$ 50.01      | (2.49)           |
| 38,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 21.64              | 53.07                    | 9.26                         | 42.50          | \$ 51.76      | (1.31)           |
| 39,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 22.21              | 53.64                    | 9.26                         | 44.25          | \$ 53.51      | (0.13)           |
| 40,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 22.78              | 54.21                    | 9.26                         | 46.00          | \$ 55.26      | 1.05             |
| 41,000      | \$ 24.31        | \$ 4.60           | \$ 1.95      | \$ 0.56        | 23.35              | 54.78                    | 9.26                         | 47.75          | \$ 57.01      | \$ 2.23          |

Computation of Break Over Point when of Computed Monthly Minimums & Commodity Rate (Single Tier) from Cost of Service Reached when 5/8 Inch Residential Customer is midway through Second Tier Rate.

## EXHIBIT

A-27

admitted

Aug (104)  
(4 wks)

73.2% 1,145 bills 0 to 25 1000 gals  
 26.8% 339 bills 26 to 80 1000 gals  
 5.1% 80 bills > 80 1000 gals  
 1,564 bills ✓

| 3/28/2006 9:59:44 AZPR |                | Ariz            | ona -     | Produc    | tion - V5R1M8                | Page: 1      |   |
|------------------------|----------------|-----------------|-----------|-----------|------------------------------|--------------|---|
| GUTOWSLJ Usage         |                | and R           | evenue    | Recap     | by Revenue Code - Mel Detail | PMTUSGRVNR   |   |
| Resid.                 | Revenue        | Period: 2004/08 | Rev       | Code:     | Rate Sched                   | P1M1A Dis    | *ALL Sort: R Taxes: N 1000G = Unit of Measure |
| Code                   | Account Number | Premise         | Route     | Dist Code | Area Code                    | Utility Code | Rate Sched                                    |
|                        |                |                 |           |           |                              |              | Charge Usage                                  |
|                        |                |                 |           |           |                              |              | Charge Amount                                 |
|                        |                |                 |           |           |                              |              | GL Account Number                             |
| 1                      | R1110          | 185947          | 230083988 | 23360     | 2320                         | W            | P1M1A (20) (31.42) 230205401110000            |
| 2                      | R1110          | 128227          | 230083837 | 23360     | 2320                         | W            | P1M1A - 14.01 230205401110000                 |
| 3                      | R1110          | 128232          | 230083840 | 23360     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 4                      | R1110          | 128256          | 230083851 | 23360     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 5                      | R1110          | 128259          | 230083852 | 23360     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 6                      | R1110          | 128322          | 230083867 | 23360     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 7                      | R1110          | 128525          | 230083935 | 23360     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 8                      | R1110          | 128528          | 230083938 | 23360     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 9                      | R1110          | 129224          | 230084240 | 23375     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 10                     | R1110          | 129239          | 230084246 | 23375     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 11                     | R1110          | 129681          | 230084461 | 23410     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 12                     | R1110          | 129688          | 230084465 | 23410     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 13                     | R1110          | 129704          | 230084471 | 23410     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 14                     | R1110          | 129736          | 230084486 | 23410     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 15                     | R1110          | 129739          | 230084488 | 23410     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 16                     | R1110          | 129794          | 230084512 | 23410     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 17                     | R1110          | 130774          | 230084990 | 23440     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 18                     | R1110          | 130814          | 230085008 | 23440     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 19                     | R1110          | 130865          | 230085033 | 23440     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 20                     | R1110          | 130886          | 230085042 | 23440     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 21                     | R1110          | 130911          | 230085051 | 23440     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 22                     | R1110          | 130961          | 230085078 | 23440     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 23                     | R1110          | 131148          | 230085146 | 23448     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 24                     | R1110          | 131291          | 230085209 | 23448     | 2320                         | W            | P1M1A - 14.01 230205401110000                 |
| 25                     | R1110          | 131295          | 230085212 | 23448     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 26                     | R1110          | 131302          | 230085218 | 23448     | 2320                         | W            | P1M1A - 14.01 230205401110000                 |
| 27                     | R1110          | 131432          | 230085284 | 23450     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 28                     | R1110          | 131438          | 230085287 | 23450     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 29                     | R1110          | 131464          | 230085296 | 23450     | 2320                         | W            | P1M1A - 14.01 230205401110000                 |
| 30                     | R1110          | 131475          | 230085300 | 23450     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 31                     | R1110          | 131499          | 230085307 | 23450     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 32                     | R1110          | 131501          | 230085308 | 23450     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 33                     | R1110          | 131503          | 230085310 | 23450     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 34                     | R1110          | 131579          | 230085334 | 23450     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 35                     | R1110          | 131584          | 230085335 | 23450     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 36                     | R1110          | 131668          | 230085363 | 23450     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 37                     | R1110          | 131738          | 230085391 | 23450     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 38                     | R1110          | 131846          | 230085427 | 23453     | 2320                         | W            | P1M1A - 14.01 230205401110000                 |
| 39                     | R1110          | 131865          | 230085434 | 23453     | 2320                         | W            | P1M1A - 12.33 230205401110000                 |
| 40                     | R1110          | 132002          | 230085500 | 23453     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 41                     | R1110          | 132007          | 230085501 | 23453     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 42                     | R1110          | 132129          | 230085564 | 23453     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 43                     | R1110          | 132215          | 230085645 | 23458     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 44                     | R1110          | 132349          | 230085717 | 23458     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 45                     | R1110          | 132599          | 230085825 | 23459     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 46                     | R1110          | 132636          | 230085847 | 23459     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 47                     | R1110          | 133803          | 230086363 | 23490     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 48                     | R1110          | 133901          | 230086391 | 23490     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 49                     | R1110          | 134050          | 230086432 | 23490     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 50                     | R1110          | 134853          | 230086524 | 23458     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 51                     | R1110          | 140877          | 230085332 | 23450     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |
| 52                     | R1110          | 148081          | 230085088 | 23440     | 2320                         | W            | P1M1A - 8.41 230205401110000                  |

3/28/2006 9:59:44 AZPR  
 GUTOWSLJ Usage Period: 2004/08  
 Ariz and R Rev  
 ona - evenue Code: Dist Code  
 Produc Recap R1110 Area Code  
 tion - V5R1M8 by Revenue Code - Mel Detail  
 P1M1A Dis \*ALL Sort: R Taxes: N 1000G  
 Page: 1  
 PMTUSGRVNR  
 Revenue Account Number Premise Route Code Code Code Code Code Code Code Code Code Code  
 Revenue Code Number Premise Route Code Code Code Code Code Code Code Code Code Code  
 Charge Amount GL Account Number

|      |       |        |           |       |      |      |   |       |    |       |                 |
|------|-------|--------|-----------|-------|------|------|---|-------|----|-------|-----------------|
| 1121 | R1110 | 130581 | 230084884 | 23440 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
| 1122 | R1110 | 130858 | 230085030 | 23440 | 2320 | 2320 | W | P1M1A | 25 | 32.26 | 230205401110000 |
| 1123 | R1110 | 131069 | 230085115 | 23448 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
| 1124 | R1110 | 131099 | 230085130 | 23448 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
| 1125 | R1110 | 131150 | 230085148 | 23448 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
| 1126 | R1110 | 131207 | 230085170 | 23448 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
| 1127 | R1110 | 131248 | 230085187 | 23448 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
| 1128 | R1110 | 131368 | 230085245 | 23448 | 2320 | 2320 | W | P1M1A | 25 | 32.26 | 230205401110000 |
| 1129 | R1110 | 131480 | 230085301 | 23450 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
| 1130 | R1110 | 131750 | 230085396 | 23453 | 2320 | 2320 | W | P1M1A | 25 | 27.78 | 230205401110000 |
| 1131 | R1110 | 131932 | 230085466 | 23453 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
| 1132 | R1110 | 132594 | 230085820 | 23459 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
| 1133 | R1110 | 132806 | 230085922 | 23459 | 2320 | 2320 | W | P1M1A | 25 | 32.26 | 230205401110000 |
| 1134 | R1110 | 132861 | 230085946 | 23459 | 2320 | 2320 | W | P1M1A | 25 | 32.26 | 230205401110000 |
| 1135 | R1110 | 133112 | 230086055 | 23465 | 2320 | 2320 | W | P1M1A | 25 | 32.26 | 230205401110000 |
| 1136 | R1110 | 133423 | 230086159 | 23465 | 2320 | 2320 | W | P1M1A | 25 | 32.26 | 230205401110000 |
| 1137 | R1110 | 133843 | 230086375 | 23490 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
| 1138 | R1110 | 133937 | 230086399 | 23490 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
| 1139 | R1110 | 134729 | 230083915 | 23360 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
| 1140 | R1110 | 135652 | 230086123 | 23465 | 2320 | 2320 | W | P1M1A | 25 | 32.26 | 230205401110000 |
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| 1145 | R1110 | 193048 | 230085128 | 23448 | 2320 | 2320 | W | P1M1A | 25 | 26.66 | 230205401110000 |
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| 1149 | R1110 | 130791 | 230084995 | 23440 | 2320 | 2320 | W | P1M1A | 26 | 28.34 | 230205401110000 |
| 1150 | R1110 | 131085 | 230085123 | 23448 | 2320 | 2320 | W | P1M1A | 26 | 28.34 | 230205401110000 |
| 1151 | R1110 | 131208 | 230085171 | 23448 | 2320 | 2320 | W | P1M1A | 26 | 28.34 | 230205401110000 |
| 1152 | R1110 | 131274 | 230085200 | 23448 | 2320 | 2320 | W | P1M1A | 26 | 28.34 | 230205401110000 |
| 1153 | R1110 | 131918 | 230085457 | 23453 | 2320 | 2320 | W | P1M1A | 26 | 28.34 | 230205401110000 |
| 1154 | R1110 | 132042 | 230085521 | 23453 | 2320 | 2320 | W | P1M1A | 26 | 28.34 | 230205401110000 |
| 1155 | R1110 | 132118 | 230085560 | 23453 | 2320 | 2320 | W | P1M1A | 26 | 28.34 | 230205401110000 |
| 1156 | R1110 | 132778 | 230085912 | 23459 | 2320 | 2320 | W | P1M1A | 26 | 33.94 | 230205401110000 |
| 1157 | R1110 | 132867 | 230085949 | 23459 | 2320 | 2320 | W | P1M1A | 26 | 33.94 | 230205401110000 |
| 1158 | R1110 | 133631 | 230086291 | 23480 | 2320 | 2320 | W | P1M1A | 26 | 28.34 | 230205401110000 |
| 1159 | R1110 | 133833 | 230086372 | 23490 | 2320 | 2320 | W | P1M1A | 26 | 28.34 | 230205401110000 |
| 1160 | R1110 | 155996 | 230085280 | 23448 | 2320 | 2320 | W | P1M1A | 26 | 33.94 | 230205401110000 |
| 1161 | R1110 | 180908 | 230085901 | 23459 | 2320 | 2320 | W | P1M1A | 26 | 33.94 | 230205401110000 |



|                   |         |                 |           |        |        |               |            |                                |
|-------------------|---------|-----------------|-----------|--------|--------|---------------|------------|--------------------------------|
| 3/28/2006 9:59:44 |         | AZPR            | Ariz      | ona -  | Produc | tion - V5R1M8 | Page: 1    |                                |
| GUTOWSLJ          |         | Usage           | and R     | evenue | Recap  | by Revenue    | PMTUSGRVNR |                                |
| Revenue           |         | Period: 2004/08 | Rev       | Code:  | R1110  | Rate Sche     | 1000G      |                                |
| Revenue           | Account | Premise         | Route     | Dist   | Area   | Utility       | Rate       | *ALL Sort: R Taxes: N          |
| Code              | Number  |                 | Code      | Code   | Code   | Code          | Sched      | Charge Charge                  |
|                   |         |                 |           |        |        |               |            | Usage Amount GL Account Number |
| 1474              | R1110   | 131079          | 230085119 | 23448  | 2320   | 2320 W        | P1M1A      | 76 112.34 230205401110000      |
| 1475              | R1110   | 132011          | 230085504 | 23453  | 2320   | 2320 W        | P1M1A      | 76 117.94 230205401110000      |
| 1476              | R1110   | 132481          | 230085779 | 23459  | 2320   | 2320 W        | P1M1A      | 76 148.76 230205401110000      |
| 1477              | R1110   | 174017          | 230090978 | 23375  | 2320   | 2320 W        | P1M1A      | 76 117.94 230205401110000      |
| 1478              | R1110   | 130686          | 230084953 | 23440  | 2320   | 2320 W        | P1M1A      | 77 119.62 230205401110000      |
| 1479              | R1110   | 132282          | 230085681 | 23458  | 2320   | 2320 W        | P1M1A      | 77 114.02 230205401110000      |
| 1480              | R1110   | 133019          | 230086019 | 23460  | 2320   | 2320 W        | P1M1A      | 77 119.62 230205401110000      |
| 1481              | R1110   | 131414          | 230085272 | 23448  | 2320   | 2320 W        | P1M1A      | 78 121.30 230205401110000      |
| 1482              | R1110   | 132025          | 230085512 | 23453  | 2320   | 2320 W        | P1M1A      | 78 115.70 230205401110000      |
| 1483              | R1110   | 132804          | 230085921 | 23459  | 2320   | 2320 W        | P1M1A      | 78 121.30 230205401110000      |
| 1484              | R1110   | 192290          | 230085666 | 23458  | 2320   | 2320 W        | P1M1A      | 80 124.66 230205401110000      |
| 1485              | R1110   | 130687          | 230084954 | 23440  | 2320   | 2320 W        | P1M1A      | 81 126.83 230205401110000      |
| 1486              | R1110   | 131181          | 230085163 | 23448  | 2320   | 2320 W        | P1M1A      | 82 123.40 230205401110000      |
| 1487              | R1110   | 128239          | 230083843 | 23360  | 2320   | 2320 W        | P1M1A      | 83 131.17 230205401110000      |
| 1488              | R1110   | 130698          | 230084960 | 23440  | 2320   | 2320 W        | P1M1A      | 83 131.17 230205401110000      |
| 1489              | R1110   | 131746          | 230085395 | 23453  | 2320   | 2320 W        | P1M1A      | 86 137.68 230205401110000      |
| 1490              | R1110   | 131370          | 230085247 | 23448  | 2320   | 2320 W        | P1M1A      | 87 139.85 230205401110000      |
| 1491              | R1110   | 130651          | 230084933 | 23440  | 2320   | 2320 W        | P1M1A      | 91 148.53 230205401110000      |
| 1492              | R1110   | 134415          | 230085158 | 23448  | 2320   | 2320 W        | P1M1A      | 94 149.44 230205401110000      |
| 1493              | R1110   | 131386          | 230085257 | 23448  | 2320   | 2320 W        | P1M1A      | 95 157.21 230205401110000      |
| 1494              | R1110   | 130703          | 230084962 | 23440  | 2320   | 2320 W        | P1M1A      | 96 159.38 230205401110000      |
| 1495              | R1110   | 132460          | 230085772 | 23459  | 2320   | 2320 W        | P1M1A      | 96 159.38 230205401110000      |
| 1496              | R1110   | 133011          | 230086014 | 23460  | 2320   | 2320 W        | P1M1A      | 96 159.38 230205401110000      |
| 1497              | R1110   | 130523          | 230084853 | 23440  | 2320   | 2320 W        | P1M1A      | 97 161.55 230205401110000      |
| 1498              | R1110   | 131287          | 230085207 | 23448  | 2320   | 2320 W        | P1M1A      | 97 161.55 230205401110000      |
| 1499              | R1110   | 132077          | 230085539 | 23453  | 2320   | 2320 W        | P1M1A      | 98 158.12 230205401110000      |
| 1500              | R1110   | 158202          | 230085255 | 23448  | 2320   | 2320 W        | P1M1A      | 101 170.23 230205401110000     |
| 1501              | R1110   | 131623          | 230085353 | 23450  | 2320   | 2320 W        | P1M1A      | 106 181.08 230205401110000     |
| 1502              | R1110   | 162972          | 230085676 | 23458  | 2320   | 2320 W        | P1M1A      | 107 183.25 230205401110000     |
| 1503              | R1110   | 132309          | 230085699 | 23458  | 2320   | 2320 W        | P1M1A      | 108 185.42 230205401110000     |
| 1504              | R1110   | 132298          | 230085691 | 23458  | 2320   | 2320 W        | P1M1A      | 109 181.99 230205401110000     |
| 1505              | R1110   | 132212          | 230085643 | 23458  | 2320   | 2320 W        | P1M1A      | 112 224.92 230205401110000     |
| 1506              | R1110   | 132586          | 230085817 | 23459  | 2320   | 2320 W        | P1M1A      | 115 200.61 230205401110000     |
| 1507              | R1110   | 130524          | 230084854 | 23440  | 2320   | 2320 W        | P1M1A      | 116 202.78 230205401110000     |
| 1508              | R1110   | 131298          | 230085215 | 23448  | 2320   | 2320 W        | P1M1A      | 117 204.95 230205401110000     |
| 1509              | R1110   | 132316          | 230085702 | 23458  | 2320   | 2320 W        | P1M1A      | 117 204.95 230205401110000     |
| 1510              | R1110   | 130655          | 230084936 | 23440  | 2320   | 2320 W        | P1M1A      | 120 211.46 230205401110000     |
| 1511              | R1110   | 131983          | 230085493 | 23453  | 2320   | 2320 W        | P1M1A      | 120 211.46 230205401110000     |
| 1512              | R1110   | 131877          | 230085440 | 23453  | 2320   | 2320 W        | P1M1A      | 121 213.63 230205401110000     |
| 1513              | R1110   | 130540          | 230084861 | 23440  | 2320   | 2320 W        | P1M1A      | 122 215.80 230205401110000     |
| 1514              | R1110   | 132266          | 230085675 | 23458  | 2320   | 2320 W        | P1M1A      | 122 210.20 230205401110000     |
| 1515              | R1110   | 132232          | 230085652 | 23458  | 2320   | 2320 W        | P1M1A      | 123 217.97 230205401110000     |
| 1516              | R1110   | 131087          | 230085125 | 23448  | 2320   | 2320 W        | P1M1A      | 125 222.31 230205401110000     |
| 1517              | R1110   | 131385          | 230085256 | 23448  | 2320   | 2320 W        | P1M1A      | 125 222.31 230205401110000     |
| 1518              | R1110   | 132999          | 230086009 | 23460  | 2320   | 2320 W        | P1M1A      | 125 222.31 230205401110000     |
| 1519              | R1110   | 128235          | 230083841 | 23360  | 2320   | 2320 W        | P1M1A      | 126 224.48 230205401110000     |
| 1520              | R1110   | 131624          | 230085354 | 23450  | 2320   | 2320 W        | P1M1A      | 126 224.48 230205401110000     |
| 1521              | R1110   | 133015          | 230086016 | 23460  | 2320   | 2320 W        | P1M1A      | 126 224.48 230205401110000     |
| 1522              | R1110   | 169464          | 230085464 | 23453  | 2320   | 2320 W        | P1M1A      | 127 221.05 230205401110000     |
| 1523              | R1110   | 131086          | 230085124 | 23448  | 2320   | 2320 W        | P1M1A      | 128 228.82 230205401110000     |
| 1524              | R1110   | 131244          | 230085182 | 23448  | 2320   | 2320 W        | P1M1A      | 134 236.24 230205401110000     |
| 1525              | R1110   | 132333          | 230085709 | 23458  | 2320   | 2320 W        | P1M1A      | 138 244.92 230205401110000     |
| 1526              | R1110   | 130591          | 230084889 | 23440  | 2320   | 2320 W        | P1M1A      | 139 252.69 230205401110000     |
| 1527              | R1110   | 130811          | 230085007 | 23440  | 2320   | 2320 W        | P1M1A      | 139 283.51 230205401110000     |
| 1528              | R1110   | 132264          | 230085673 | 23458  | 2320   | 2320 W        | P1M1A      | 151 278.73 230205401110000     |
| 1529              | R1110   | 144364          | 230086011 | 23460  | 2320   | 2320 W        | P1M1A      | 152 275.30 230205401110000     |
| 1530              | R1110   | 132228          | 230085651 | 23458  | 2320   | 2320 W        | P1M1A      | 156 289.58 230205401110000     |
| 1531              | R1110   | 177140          | 230084934 | 23440  | 2320   | 2320 W        | P1M1A      | 156 289.58 230205401110000     |
| 1532              | R1110   | 132388          | 230085733 | 23458  | 2320   | 2320 W        | P1M1A      | 158 293.92 230205401110000     |
| 1533              | R1110   | 133016          | 230086017 | 23460  | 2320   | 2320 W        | P1M1A      | 164 306.94 230205401110000     |
| 1534              | R1110   | 131049          | 230085107 | 23448  | 2320   | 2320 W        | P1M1A      | 194 372.04 230205401110000     |
| 1535              | R1110   | 131541          | 230085322 | 23450  | 2320   | 2320 W        | P1M1A      | 195 405.03 230205401110000     |
| 1536              | R1110   | 131050          | 230085108 | 23448  | 2320   | 2320 W        | P1M1A      | 202 389.40 230205401110000     |

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Page: 1  
PMTUSGRVNR

| Revenue<br>Code | Account<br>Number | Premise | Route     | Dist<br>Code | Area<br>Code | Utility<br>Code | Rate<br>Sched | Charge<br>Usage | Charge<br>Amount | GL Account Number |
|-----------------|-------------------|---------|-----------|--------------|--------------|-----------------|---------------|-----------------|------------------|-------------------|
| 1537            | R1110             | 131919  | 230085458 | 23453        | 2320         | 2320            | W             | P1M1A           | 223              | 230205401110000   |
| 1538            | R1110             | 132280  | 230085680 | 23458        | 2320         | 2320            | W             | P1M1A           | 227              | 230205401110000   |
| 1539            | R1110             | 130848  | 230085025 | 23440        | 2320         | 2320            | W             | P1M1A           | 234              | 230205401110000   |
| 1540            | R1110             | 133018  | 230086018 | 23460        | 2320         | 2320            | W             | P1M1A           | 246              | 230205401110000   |
| 1541            | R1110             | 133265  | 230086105 | 23465        | 2320         | 2320            | W             | P1M1A           | 251              | 230205401110000   |
| 1542            | R1110             | 132618  | 230085836 | 23459        | 2320         | 2320            | W             | P1M1A           | 253              | 230205401110000   |
| 1543            | R1110             | 157257  | 230084938 | 23440        | 2320         | 2320            | W             | P1M1A           | 253              | 230205401110000   |
| 1544            | R1110             | 152669  | 230084961 | 23440        | 2320         | 2320            | W             | P1M1A           | 254              | 230205401110000   |
| 1545            | R1110             | 143721  | 230084930 | 23440        | 2320         | 2320            | W             | P1M1A           | 256              | 230205401110000   |
| 1546            | R1110             | 131602  | 230085342 | 23450        | 2320         | 2320            | W             | P1M1A           | 267              | 230205401110000   |
| 1547            | R1110             | 131682  | 230085366 | 23450        | 2320         | 2320            | W             | P1M1A           | 272              | 230205401110000   |
| 1548            | R1110             | 138281  | 230085923 | 23459        | 2320         | 2320            | W             | P1M1A           | 273              | 230205401110000   |
| 1549            | R1110             | 131296  | 230085213 | 23448        | 2320         | 2320            | W             | P1M1A           | 274              | 230205401110000   |
| 1550            | R1110             | 130566  | 230084876 | 23440        | 2320         | 2320            | W             | P1M1A           | 286              | 230205401110000   |
| 1551            | R1110             | 132504  | 230085786 | 23459        | 2320         | 2320            | W             | P1M1A           | 300              | 230205401110000   |
| 1552            | R1110             | 130933  | 230085063 | 23440        | 2320         | 2320            | W             | P1M1A           | 310              | 230205401110000   |
| 1553            | R1110             | 132645  | 230085853 | 23459        | 2320         | 2320            | W             | P1M1A           | 322              | 230205401110000   |
| 1554            | R1110             | 130871  | 230085036 | 23440        | 2320         | 2320            | W             | P1M1A           | 332              | 230205401110000   |
| 1555            | R1110             | 132646  | 230085854 | 23459        | 2320         | 2320            | W             | P1M1A           | 438              | 230205401110000   |
| 1556            | R1110             | 132018  | 230085508 | 23453        | 2320         | 2320            | W             | P1M1A           | 468              | 230205401110000   |
| 1557            | R1110             | 128699  | 230083995 | 23360        | 2320         | 2320            | W             | P1M1A           | 469              | 230205401110000   |
| 1558            | R1110             | 132019  | 230085509 | 23453        | 2320         | 2320            | W             | P1M1A           | 496              | 230205401110000   |
| 1559            | R1110             | 132679  | 230085868 | 23459        | 2320         | 2320            | W             | P1M1A           | 602              | 230205401110000   |
| 1560            | R1110             | 130932  | 230085062 | 23440        | 2320         | 2320            | W             | P1M1A           | 622              | 230205401110000   |
| 1561            | R1110             | 129254  | 230084255 | 23375        | 2320         | 2320            | W             | P1M1A           | 626              | 230205401110000   |
| 1562            | R1110             | 128343  | 230083875 | 23360        | 2320         | 2320            | W             | P1M1A           | 750              | 230205401110000   |
| 1563            | R1110             | 133586  | 230086263 | 23480        | 2320         | 2320            | W             | P1M1A           | 769              | 230205401110000   |
| 1564            | R1110             | 130674  | 230084945 | 23440        | 2320         | 2320            | W             | P1M1A           | 923              | 230205401110000   |
| Gr              | and Totals        |         |           |              |              |                 |               |                 |                  |                   |

Count: 1,564

72,103.02 \*\*\*\*

\*\*\* End of Report t \*\*\*

Arizona American Water Company  
Capitalization

|                                   | As Adjusted<br>2004 | Ratio   | 2005<br>Activity | As Adjusted<br>2005 | Ratio   | 2006<br>Activity | March<br>Pro Forma 2006 | Ratio   |
|-----------------------------------|---------------------|---------|------------------|---------------------|---------|------------------|-------------------------|---------|
| Capitalization:                   |                     |         |                  |                     |         |                  |                         |         |
| Common stock                      | 523                 |         |                  | 523                 |         |                  | 523                     |         |
| Paid-in capital                   | 114,468             |         |                  | 114,468             |         |                  | 149,468                 |         |
| Accumulated (deficit) earnings    | (23,325)            |         | 839              | (22,486)            |         | 35,000           | (22,052)                |         |
| Total common stockholder's equity | 91,666              | 31.1%   | 839              | 92,505              | 31.3%   | 434              | 127,939                 | 38.7%   |
| Long-term debt                    | 202,832             | 68.9%   | -                | 202,832             | 68.7%   | -                | 202,832                 | 61.3%   |
| Total capitalization              | 294,498             | 100.00% | 839              | 295,337             | 100.00% | 35,434           | 330,771                 | 100.00% |

**EXHIBIT**  
A-28  
attached

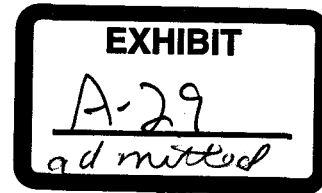
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TOWN OF  
PARADISE VALLEY

6401 EAST LINCOLN DRIVE  
TOWN OF PARADISE VALLEY, ARIZONA 85253-4399

OFFICE OF: TOWN MANAGER



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AZ CORP COMMISSION  
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February 15, 2006

Hon. Jeff Hatch-Miller, Chairman  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007

**Re: Arizona-American Water Company Rate Case #W-01303A-050405**

Dear Commissioner Hatch-Miller:

The Town of Paradise Valley has reviewed the January 16, 2006 filings by staff of the Arizona Corporation Commission and by the Residential Utility Consumer Office (RUCO) with respect to Arizona-American Water Company's ongoing rate case for water system fire flow improvements. Since the Town's perspective on the fire flow improvements apparently differs from comments submitted by RUCO, the following information is provided for your consideration in connection with the rate case.

Apparently, RUCO purports to represent consumers within the Town regarding the rate impact of the proposed water system fire flow improvements. Actually, the water system improvement plan designed to provide adequate fire flows began at the grass roots level by Town residents who were aware throughout the process that the cost of the improvements would need to be supported by the rates.

The support of the Commission staff for the fire flow improvements in the Town is very much appreciated. Although Arizona-American has already committed significant resources and made major improvements to the water system, there is a long way to go to assure a satisfactory level of fire protection throughout the water system. The Town urges Arizona-American to continue the water system improvement program as planned in order that it may be completed within the five-year time frame which was planned.

The Town government cannot, for both statutory and public policy reasons, fund water system improvements for a private utility. The Town is not a water utility. Town residents are served by three water utilities, Arizona-American, Berneil Water Company and the City of Phoenix. Each of these utilities is responsible to make the necessary improvements within their respective service area, and to not only meet public health standards, but to meet fire safety standards prescribed by the Uniform Fire Code as well.

Fortunately, all three water utilities are moving forward with necessary improvements. Legally, the Town is not a water utility and could not spend public money on water system improvements without a vote of the people. From a public policy perspective the Town could not subsidize a private business with public money. Both A.R.S. §9-5 14 and the Gift Clause in the Arizona Constitution prohibit the Town from spending general fund money to build or contribute to the construction of the water system infrastructure that would be owned by Arizona-American.

From the Town's perspective each of the three water utilities serving our residents must utilize whatever mechanisms they have to fund improvements which are necessary for public safety. The Town, like other Arizona municipalities, has adopted the Uniform Fire Code which specifies minimum flow rates necessary for different types of development. A minimum fire flow of 1500 gallons per minute is the standard which all three water utilities must meet within the Town.

If representatives of the Corporation Commission wish any further information from the Town of Paradise Valley, please feel free to contact me.

Sincerely,



Thomas M. Martinsen  
Town Manager

TMM/nm

POWER INVOICES FOR PARADISE VALLEY FOR 2004

EXHIBIT

A-30

| MONTH              | SERVICE PERIOD <sup>(1)</sup> |          | INVOICE AMOUNT |            |
|--------------------|-------------------------------|----------|----------------|------------|
| JAN                | 11/19/03                      | 12/19/03 | \$             | 62,164.81  |
| FEB                | 12/19/03                      | 01/22/04 | \$             | 58,794.17  |
| MAR                | 01/22/04                      | 02/23/04 | \$             | 52,921.19  |
| APR                | 02/23/04                      | 03/19/04 | \$             | 45,578.28  |
| MAY                | 03/19/04                      | 04/20/04 | \$             | 69,442.09  |
| JUN                | 04/20/04                      | 05/19/04 | \$             | 80,411.03  |
| JUL                | 05/19/04                      | 06/22/04 | \$             | 111,719.18 |
| AUG                | 06/22/04                      | 07/20/04 | \$             | 106,769.18 |
| SEP                | 07/20/04                      | 08/17/04 | \$             | 108,608.98 |
| OCT                | 08/17/04                      | 09/16/04 | \$             | 104,956.64 |
| NOV                | 09/16/04                      | 10/18/04 | \$             | 95,319.51  |
| DEC <sup>(2)</sup> | 10/18/04                      | 11/17/04 | \$             | 71,826.52  |
| TOTAL              |                               |          | \$             | 968,511.58 |

<sup>(1)</sup> APPROXIMATE SERVICE PERIOD

<sup>(2)</sup> DEC BILL WAS PAID IN 2005

PARADISE VALLEY 2005 RATE CASE  
 DOWNLOAD ACCOUNT 515100 ACTIVITY FOR 2004

| GLCO<br>CO. | GLDCT<br>DOC TYP | GLDOC<br>DOC # | GLEXA<br>DESCRIPTION   | GLFY<br>YEAR | GLPN<br>PERIOD | GLMCU<br>BUS UNIT | GLOBJ<br>OBJECT | GLSUB<br>SUB |
|-------------|------------------|----------------|------------------------|--------------|----------------|-------------------|-----------------|--------------|
| 'S Vouchers |                  |                |                        |              |                |                   |                 |              |
| 00023       | PV               | 40654313       | Arizona Public Service | 4            | 1              | 230201515100      | 12              |              |
| 00023       | PV               | 40678477       | Arizona Public Service | 4            | 2              | 230201515100      | 12              |              |
| 00023       | PV               | 40702284       | Arizona Public Service | 4            | 3              | 230201515100      | 12              |              |
| 00023       | PV               | 40723534       | Arizona Public Service | 4            | 4              | 230201515100      | 12              |              |
| 00023       | PV               | 40748213       | Arizona Public Service | 4            | 5              | 230201515100      | 12              |              |
| 00023       | PV               | 40770001       | Arizona Public Service | 4            | 6              | 230201515100      | 12              |              |
| 00023       | PV               | 40793281       | Arizona Public Service | 4            | 7              | 230201515100      | 12              |              |
| 00023       | PV               | 40821353       | Arizona Public Service | 4            | 8              | 230201515100      | 12              |              |
| 00023       | PV               | 40843595       | Arizona Public Service | 4            | 9              | 230201515100      | 12              |              |
| 00023       | PV               | 40865980       | Arizona Public Service | 4            | 10             | 230201515100      | 12              |              |
| 00023       | PV               | 40892331       | Arizona Public Service | 4            | 11             | 230201515100      | 12              |              |

| GLAA   | GLEXR        |
|--------|--------------|
| AMOUNT | DESCRIPTION2 |

|   |               |                             |
|---|---------------|-----------------------------|
| J | \$ 62,164.81  | 572440286                   |
| F | \$ 58,794.17  | 572440286                   |
| M | \$ 52,921.19  | 572440286                   |
| A | \$ 45,578.28  | 572440286                   |
| M | \$ 69,442.09  | SERVICES RENDERED           |
| J | \$ 80,411.03  | 572440286                   |
| J | \$ 111,719.18 | 572440286                   |
| A | \$ 106,769.18 | 572440286                   |
| S | \$ 108,608.98 | acc 572440286 ArizAmerWater |
| O | \$ 104,956.64 | 572440286                   |
| N | \$ 95,319.51  | 572440286                   |





Post Office Box 2907  
Phoenix AZ 85062 2907

ARIZONA AMERICAN WATER COMPANY  
Your Account Number **572440286**  
Billing Date Dec 03 2004

Questions? Visit our website at [www.aps.com](http://www.aps.com) or  
call 602-371-6767 24 hours a day 7 days a week  
Para servicio en español llame al 602-371-6861

40919890

We appreciate your business

Nov 23000084

40919890

7.12

|               |            |
|---------------|------------|
| Billing Date  | 12/03/2004 |
| Past Due Date | 12/16/2004 |

#### BILLING SUMMARY

|                                   |    |             |
|-----------------------------------|----|-------------|
| Previous Balance as of 11/01/2004 | \$ | 95,319 51   |
| Payments Received                 | \$ | 95 319 51cr |
| Current Billing                   | \$ | 71,826 52   |
| Credits for Cancelled Bills       | \$ | 0 00        |
| Service Acct Charges              | \$ | 0 00        |
| Miscellaneous Charges             | \$ | 0 00        |
| Total Due                         | \$ | 71,826 52   |

**Received**

DEC 8 2004

Shared Services Center

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Phoenix AZ 85062 2907

**ARIZONA AMERICAN WATER COMPANY**  
Your Account Number **572440286**  
Billing Date **Dec 03 2004**

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call 602-371-6767 24 hours a day 7 days a week  
Para servicio en español llame al 602-371-6861

| Service Number | Service Address DBA   | Previous Read Dt | Current Read Dt | KWH   | KW  | No of Units | Amount |
|----------------|---|------------------|-----------------|-------|-----|-------------|--------|
| 9285S10284     | 6910 N Mummy Mountain Rd<br>Paradise Valley<br>Paradise Valley Water CO         | 10/25/2004       | 11/29/2004      | 25    | 0   |             | 15     |
| 4752S30286     | 6343 N Miller Rd<br>Well 16<br>Scottsdale<br>Paradise Valley Water CO           | 10/19/2004       | 11/17/2004      | 75200 | 304 |             | 5 721  |
| 4789S01286     | 7201 Cottontail Run North<br>Well<br>Paradise Valley<br>Cottontail Run Booster  | 10/26/2004       | 11/30/2004      | 0     | 0   |             | 13     |
| 1185S10284     | 5702 E Glenn Dr<br>Paradise Valley<br>Paradise Valley Water CO                  | 10/25/2004       | 11/24/2004      | 1029  | 3   |             | 114    |
| 2085S10282     | 6000 E Indian Bend Rd<br>Paradise Valley<br>Paradise Valley Water CO            | 10/25/2004       | 11/24/2004      | 36    | 0   |             | 16     |
| 3370S20285     | 7411 N High Cliff Dr<br>Paradise Valley<br>Paradise Valley Water CO             | 10/25/2004       | 11/29/2004      | 1080  | 10  |             | 116    |
| 6775S10288     | 5402 E Lincoln Dr<br>Cc Sta<br>Paradise Valley<br>Paradise Valley Water CO      | 10/25/2004       | 11/29/2004      | 50000 | 79  |             | 3 260  |
| 2688S81282     | 21479 W Sunrise Ln<br>Pump<br>Litchfield Park<br>Arizona American Water Company | 10/12/2004       | 11/12/2004      | 10000 | 34  |             | 774    |
| 0771S10287     | 5551 E Solano Dr<br>Paradise Valley<br>Paradise Valley Water CO                 | 10/20/2004       | 11/18/2004      | 22    | 0   |             | 15     |

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Billing Date  
Dec 03, 2004

Account Number  
572440286

Account Number  
572440286

Billing Date  
Dec 03 2004

ARIZONA AMERICAN WATER COMPANY  
C/O SHARED SERVICES CENTER  
ACCOUNTS PAYABLE DEPARTMENT  
PO BOX 5087  
MOUNT LAUREL NJ 08054-5087



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If contributing to S H A R E  
please enter amount in S H A R E  
box and add to your total

ENTER AMOUNT ENCLOSED

ENTER S H A R E AMOUNT

TOTAL AMOUNT DUE  
\$71,826 52

MAKE CHECK  
PAYABLE TO A

Check No

Date paid

Amount

KEEP THIS STUE  
PORTION FOR  
YOUR RECORDS

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**ARIZONA AMERICAN WATER COMPANY**  
 Your Account Number **572440286**  
 Billing Date **Dec 03 2004**

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 Para servicio en español llame al 602-371-6861

Post Office Box 2907  
 Phoenix AZ 85062 2907

| Service Number | Service Address DBA   | Previous Read Dt | Current Read Dt | KWH    | KW   | No of Units | Amount |
|----------------|---|------------------|-----------------|--------|------|-------------|--------|
| 8752S30286     | 6215 N Miller Rd<br>Well11<br>Scottsdale<br>Paradise Valley Water CO        | 10/19/2004       | 11/17/2004      | 44400  | 207  |             | 3 440  |
| 9241S21286     | 5401 E McDonald Dr<br>Paradise Valley<br>Paradise Valley Water CO           | 10/21/2004       | 11/18/2004      | 15786  | 48   |             | 1 174  |
| 9084S31282     | 5211 E Cheney Dr<br>Pump<br>Paradise Valley<br>Paradise Valley Water CO     | 10/26/2004       | 11/30/2004      | 4733   | 14   |             | 369    |
| 8953S11282     | 5975 N Miller Rd<br>Mrtf#1<br>Scottsdale<br>Paradise Valley Water CO        | 10/18/2004       | 11/17/2004      | 20800  | 292  |             | 1 968  |
| 3152S30285     | 6215 N Miller Rd<br>Scottsdale<br>Paradise Valley Water CO                  | 10/19/2004       | 11/17/2004      | 0      | 0    |             | 13     |
| 9953S01285     | 7550 E Lincoln Dr<br>Scottsdale<br>Paradise Valley Water CO                 | 10/19/2004       | 11/17/2004      | 20000  | 310  |             | 1 944  |
| 5481S10282     | 5625 N 52 Pl<br>Paradise Valley<br>Paradise Valley Water CO                 | 10/20/2004       | 11/18/2004      | 0      | 0    |             | 13     |
| 2225S11282     | 5975 N Miller Rd<br>Mrtf#2<br>Scottsdale<br>Paradise Valley Water CO        | 10/18/2004       | 11/17/2004      | 604000 | 1080 |             | 34 327 |
| 5274S11284     | 4401 E Lakeside Ln<br>Cwhbst<br>Paradise Valley<br>Paradise Valley Water CO | 10/25/2004       | 11/29/2004      | 26240  | 115  |             | 2 036  |

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Billing Date  
 Dec 03, 2004

Account Number  
 572440286

Account Number  
 572440286

Billing Date  
 Dec 03 2004

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ARIZONA AMERICAN WATER COMPANY  
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 PO BOX 5087  
 MOUNT LAUREL NJ 08054-5087



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ENTER AMOUNT ENCLOSED

ENTER SHARE AMOUNT

Check No \_\_\_\_\_

Date paid \_\_\_\_\_

Amount \_\_\_\_\_

If contributing to SHARE  
 please enter amount in SHARE  
 box and add to your total

TOTAL AMOUNT DUE  
**\$71,826 52**

KEEP THIS STUB  
 PORTION FOR  
 YOUR RECORDS

20 N 1 117

00000005724402860020041203000000000007182652-5 000



**ARIZONA AMERICAN WATER COMPANY**  
**Your Account Number 572440286**  
**Billing Date Dec 03 2004**

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 call 602-371-6767 24 hours a day 7 days a week  
 Para servicio en español llame al 602-371-6861

Post Office Box 2907  
 Phoenix AZ 85062 2907

| Service Number | Service Address DBA  | Previous Read Dt | Current Read Dt | KWH    | KW  | No of Units | Amount |
|----------------|--|------------------|-----------------|--------|-----|-------------|--------|
| 6072S30287     | 6015 N Miller Rd<br>Pump 14<br>Scottsdale<br>Paradise Valley Water CO            | 10/19/2004       | 11/17/2004      | 142680 | 304 |             | 9 628  |
| 5175S10285     | 7009 N 59 Pl<br>Paradise Valley<br>Paradise Valley Water CO                      | 10/25/2004       | 11/24/2004      | 1666   | 7   |             | 151    |
| 0772S30283     | 6215 N Miller Rd<br>Scottsdale<br>Paradise Valley Water CO                       | 10/19/2004       | 11/17/2004      | 2      | 0   |             | 13     |
| 0952S30281     | 6215 N Miller Rd<br>Mil Rd<br>Scottsdale<br>Paradise Valley Water CO             | 10/19/2004       | 11/17/2004      | 54240  | 510 |             | 4 638  |
| 3175S10281     | Arroyo Rd E Desert Fw N<br>SE COR<br>Paradise Valley<br>Paradise Valley Water CO | 10/07/2004       | 11/08/2004      | 25     | 0   | 1 Unit(s)   | 9      |
| 0060S20286     | Clearwater Hills<br>Wtr Tk<br>Paradise Valley<br>Paradise Valley Water CO        | 10/25/2004       | 11/29/2004      | 503    | 2   |             | 63     |
| 9462S30282     | 6215 N Miller Rd<br>Well12<br>Scottsdale<br>Paradise Valley Water CO             | 10/19/2004       | 11/17/2004      | 23400  | 199 |             | 1 986  |

**TOTAL CURRENT CHARGES \$ 71 826**

**PAYMENT 11/16/2004 \$ 95 319**

**THANK YOU FOR YOUR PAYMENT**

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Billing Date  
Dec 03, 2004

Account Number  
572440286

Account Number  
572440286

Billing Date  
Dec 03 2004

MAKE CHECK  
PAYABLE TO APS

Check No \_\_\_\_\_

Date paid \_\_\_\_\_

Amount \_\_\_\_\_

ARIZONA AMERICAN WATER COMPANY  
 C/O SHARED SERVICES CENTER  
 ACCOUNTS PAYABLE DEPARTMENT  
 PO BOX 5087  
 MOUNT LAUREL NJ 08054-5087

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**TOTAL AMOUNT DUE  
 \$71,826 52**

**KEEP THIS STUB  
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 YOUR RECORDS**

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Post Office Box 2907  
Phoenix AZ 85062 2907

**ARIZONA AMERICAN WATER COMPANY**  
Your Account Number 572440286  
Billing Date Dec 03 2004

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**SERVICE INFORMATION**

Service number 9285S10284  
Your service plan E 32 Rate  
Service address 6910 N Mummy Mountain Rd  
Paradise Valley  
Paradise Valley Water CO

Your meter number H5931  
Your meter is read in cycle 19

On Nov 29 your total kWh read was 83  
On Oct 25 your total kWh read was 58  
Your total kWh usage is 25

Your kW demand read was 0

**CURRENT CHARGES**

|  |              |
|--|--------------|
| Basic service charge                         | 12 50        |
| Charge for kWh used                          | 2 30         |
| Charge for kW demand                         | 0 00         |
| ACC mandated environmental surcharge         | 0 02         |
| Regulatory assessment                        | 0 03         |
| Sales tax                                    | 0 93         |
| <b>Current energy &amp; delivery charges</b> | <b>15 78</b> |

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 35         | 31         | 28        |
| Daily kWh             | 0          | 0          | 0         |
| Daily Cost \$         | 0 45       | 0 50       | 0 4       |

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Billing Date Dec 03, 2004 Account Number 572440286

Account Number 572440286

Billing Date Dec 03 2004

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PAYABLE TO APS

Your prompt payment is appreciated Thank you!

Check No \_\_\_\_\_

Date paid \_\_\_\_\_

Amount \_\_\_\_\_



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TOTAL AMOUNT DUE  
**\$71,826 52**

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Phoenix AZ 85062 2907

**ARIZONA AMERICAN WATER COMPANY**  
Your Account Number **572440286**  
Billing Date **Dec 03 2004**

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**SERVICE INFORMATION**

Service number 4752S30286  
Your service plan E 221 Rate  
Service address 6343 N Miller Rd  
Well 16  
Scottsdale  
Paradise Valley Water CO

Your meter number D6292  
Your meter is read in cycle 14

On Nov 17 your total kWh read was 12018  
On Oct 19 your total kWh read was 11924  
The read difference is 94  
Multiplier applied to the read difference is 800  
Your total kWh usage is 75200

Your kW demand read was 38  
Multiplier applied to read is 800  
Your total kW demand is 304

**CURRENT CHARGES**

Basic service charge 15 00  
Charge for kWh used 4 850 91  
Charge for kW demand 492 48  
ACC mandated environmental surcharge 13 00  
Regulatory assessment 10 58  
Sales tax 339 06  
Current energy & delivery charges **5,721 03**

**ENERGY USE COMPARISON**

|               | This Month | Last Month | Last Year |
|---------------|------------|------------|-----------|
| Days          | 29         | 32         | 29        |
| kW            | 304        | 304        | 420       |
| Daily kWh     | 2593       | 7150       | 413       |
| Daily Cost \$ | 197 27     | 452 49     | 319       |

When paying in person please bring bottom portion of this bill



Billing Date Dec 03, 2004  
Account Number 572440286

Account Number 572440286

Billing Date Dec 03 2004

MAKE CHECK  
PAYABLE TO APS

Your prompt payment is appreciated Thank you!

Check No \_\_\_\_\_

Date paid \_\_\_\_\_

Amount \_\_\_\_\_



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**TOTAL AMOUNT DUE**  
**\$71,826 52**

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Phoenix AZ 85062 2907

**ARIZONA AMERICAN WATER COMPANY**  
Your Account Number **572440286**  
Billing Date **Dec 03 2004**

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### SERVICE INFORMATION

Service number **4789S01286**  
Your service plan **E 32 Rate**  
Service address **7201 Cottontail Run North  
Well  
Paradise Valley  
Cottontail Run Booster**

Your meter number **87022**  
Your meter is read in cycle **20**

On Nov 30 your total kWh read was **10997**  
On Oct 26 your total kWh read was **10997**  
Your total kWh usage is **0**

Your kW demand read was **0**

### CURRENT CHARGES

Basic service charge **12 50**  
Charge for kWh used **0 00**  
Charge for kW demand **0 00**  
ACC mandated environmental surcharge **0 00**  
Regulatory assessment **0 02**  
Sales tax **0 79**  
**Current energy & delivery charges 13 31**

### ENERGY USE COMPARISON

|               | This Month | Last Month | Last Year |
|---------------|------------|------------|-----------|
| Days          | 35         | 29         | 28        |
| Daily kWh     | 0          | 0          | 0         |
| Daily Cost \$ | 0 38       | 0 45       | 0 4       |

When paying in person please bring bottom portion of this bill



Billing Date **Dec 03, 2004** Account Number **572440286**

Account Number **572440286**

Billing Date **Dec 03 2004**

MAKE CHECK  
PAYABLE TO **APS**

Your prompt payment is appreciated Thank you!

Check No \_\_\_\_\_

Date paid \_\_\_\_\_

Amount \_\_\_\_\_



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TOTAL AMOUNT DUE  
**\$71,826 52**

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PORTION FOR  
YOUR RECORD!

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**ARIZONA AMERICAN WATER COMPANY**  
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Billing Date **Dec 03 2004**

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**SERVICE INFORMATION**

Service number 1185S10284  
Your service plan E 32 Rate  
Service address 5702 E Glenn Dr  
Paradise Valley  
Paradise Valley Water CO

Your meter number 24691  
Your meter is read in cycle 19

On Nov 24 your total kWh read was 4663  
On Oct 25 your total kWh read was 3634  
Your total kWh usage is 1029

This month's read was estimated locked gate  
Your kW demand read was 3

**CURRENT CHARGES**

Basic service charge 12 50  
Charge for kWh used 94 54  
Charge for kW demand 0 00  
ACC mandated environmental surcharge 0 90  
Regulatory assessment 0 21  
Sales tax 6 82  
Current energy & delivery charges **114 97**

**ENERGY USE COMPARISON**

|               | This Month | Last Month | Last Year |
|---------------|------------|------------|-----------|
| Days          | 30         | 30         | 28        |
| kW            | 3          | 3          | 3         |
| Daily kWh     | 34         | 34         | 27        |
| Daily Cost \$ | 3 83       | 4 20       | 3 2       |

When paying in person please bring bottom portion of this bill



Billing Date **Dec 03, 2004**  
Account Number **572440286**

Account Number  
**572440286**

Billing Date  
**Dec 03 2004**

MAKE CHECK  
PAYABLE TO **APS**

Your prompt payment is appreciated Thank you!

Check No \_\_\_\_\_

Date paid \_\_\_\_\_

Amount \_\_\_\_\_



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If contributing to SHARE  
please enter amount in SHARE  
box and add to your total

**TOTAL AMOUNT DUE**  
**\$71,826 52**

**KEEP THIS STUB**  
**PORTION FOR**  
**YOUR RECORD!**

20 N 1 117

000000005724402860020041203000000000007182652-5 000





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**ARIZONA AMERICAN WATER COMPANY**  
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Billing Date **Dec 03 2004**

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call 602-371-6767 24 hours a day 7 days a week  
Para servicio en español llame al 602-371-6861

**SERVICE INFORMATION**

Service number 2085S10282  
Your service plan E 32 Rate  
Service address 6000 E Indian Bend Rd  
Paradise Valley  
Paradise Valley Water CO

Your meter number 38468  
Your meter is read in cycle 19

On Nov 24 your total kWh read was 20958  
On Oct 25 your total kWh read was 20922  
Your total kWh usage is 36

Your kW demand read was 0

**CURRENT CHARGES**

Basic service charge 12 50  
Charge for kWh used 3 31  
Charge for kW demand 0 00  
ACC mandated environmental surcharge 0 03  
Regulatory assessment 0 03  
Sales tax 1 00  
Current energy & delivery charges 16 87

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 30         | 30         | 28        |
| Daily kWh             | 1          | 1          | 1         |
| Daily Cost \$         | 0 56       | 0 57       | 0 5       |

When paying in person please bring bottom portion of this bill



Billing Date Dec 03 2004  
Account Number 572440286

Account Number 572440286

Billing Date Dec 03 2004

MAKE CHECK  
PAYABLE TO APS

Your prompt payment is appreciated Thank you!

Check No \_\_\_\_\_

Date paid \_\_\_\_\_

Amount \_\_\_\_\_



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box and add to your total

TOTAL AMOUNT DUE  
**\$71,826 52**

KEEP THIS STUB  
PORTION FOR  
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**ARIZONA AMERICAN WATER COMPANY**  
Your Account Number **572440286**  
Billing Date **Dec 03 2004**

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**SERVICE INFORMATION**

Service number **3370S20285**  
Your service plan **E 221 Rate**  
Service address **7411 N High Cliff Dr  
Paradise Valley  
Paradise Valley Water CO**

Your meter number **85503**  
Your meter is read in cycle **19**

On Nov 29 your total kWh read was **10093**  
On Oct 25 your total kWh read was **9013**  
Your total kWh usage is **1080**

Your kW demand read was **10**

**CURRENT CHARGES**

Basic service charge **15 00**  
Charge for kWh used **76 84**  
Charge for kW demand **16 20**  
ACC mandated environmental surcharge **0 95**  
Regulatory assessment **0 21**  
Sales tax **6 88**  
Current energy & delivery charges **116 08**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 35         | 31         | 29        |
| kW                    | 10         | 11         | 15        |
| Daily kWh             | 30         | 54         | 40        |
| Daily Cost \$         | 3 31       | 5 18       | 4 5       |

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**SERVICE INFORMATION**

Service number 6775S10288  
Your service plan E 221 Rate  
Service address 5402 E Lincoln Dr  
Cc Sta  
Paradise Valley  
Paradise Valley Water CO

Your meter number E8615  
Your meter is read in cycle 19

On Nov 29 your total kWh read was 67679  
On Oct 25 your total kWh read was 66429  
The read difference is 1250  
Multiplier applied to the read difference is 40  
Your total kWh usage is 50000

Your kW demand read was 1 97  
Multiplier applied to read is 40  
Your total kW demand is 79

**CURRENT CHARGES**

Basic service charge 15 00  
Charge for kWh used 2 904 82  
Charge for kW demand 127 98  
ACC mandated environmental surcharge 13 00  
Regulatory assessment 6 03  
Sales tax 193 21  
Current energy & delivery charges **3,260 04**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 35         | 31         | 28        |
| kW                    | 79         | 83         | 97        |
| Daily kWh             | 1428       | 1698       | 184       |
| Daily Cost \$         | 93 14      | 110 61     | 123       |

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**SERVICE INFORMATION**

Service number 2688S81282  
Your service plan E 221 Rate  
Service address 21479 W Sunrise Ln  
Pump  
Litchfield Park  
Arizona American Water Company

Your meter number H0340  
Your meter is read in cycle 09

On Nov 12 your total kWh read was 2754  
On Oct 12 your total kWh read was 2504  
The read difference is 250  
Multiplier applied to the read difference is 40  
Your total kWh usage is 10000

Your kW demand read was 84  
Multiplier applied to read is 40  
Your total kW demand is 34

**CURRENT CHARGES**

Basic service charge 15 00  
Charge for kWh used 646 65  
Charge for kW demand 55 08  
ACC mandated environmental surcharge 8 75  
Regulatory assessment 1 43  
Sales tax 47 86  
Current energy & delivery charges **774 77**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 31         | 29         | N/A       |
| kW                    | 34         | 57         | N/A       |
| Daily kWh             | 322        | 372        | N/A       |
| Daily Cost \$         | 24 99      | 30 18      | N/A       |

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**SERVICE INFORMATION**

Service number 0771S10287  
Your service plan E 32 Rate  
Service address 5551 E Solano Dr  
Paradise Valley  
Paradise Valley Water CO

Your meter number E8151  
Your meter is read in cycle 15

On Nov 18 your total kWh read was 276  
On Oct 20 your total kWh read was 254  
Your total kWh usage is 22

Your kW demand read was 0

**CURRENT CHARGES**

Basic service charge 12 50  
Charge for kWh used 2 02  
Charge for kW demand 0 00  
ACC mandated environmental surcharge 0 02  
Regulatory assessment 0 03  
Sales tax 0 92  
Current energy & delivery charges 15 49

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 29         | 30         | 31        |
| Daily kWh             | 0          | 0          | 0         |
| Daily Cost \$         | 0 53       | 0 52       | 0 4       |

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**SERVICE INFORMATION**

Service number 8752S30286  
Your service plan E 221 Rate  
Service address 6215 N Miller Rd  
Well11  
Scottsdale  
Paradise Valley Water CO

Your meter number A9280  
Your meter is read in cycle 14

On Nov 17 your total kWh read was 59189  
On Oct 19 your total kWh read was 58634  
The read difference is 555  
Multiplier applied to the read difference is 80  
Your total kWh usage is 44400

Your kW demand read was 2 59  
Multiplier applied to read is 80  
Your total kW demand is 207

**CURRENT CHARGES**

Basic service charge 15 00  
Charge for kWh used 2,867 09  
Charge for kW demand 335 34  
ACC mandated environmental surcharge 13 00  
Regulatory assessment 6 36  
Sales tax 203 92  
**Current energy & delivery charges 3,440 71**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 29         | 32         | 29        |
| kW                    | 207        | 206        | 207       |
| Daily kWh             | 1531       | 1972       | 139       |
| Daily Cost \$         | 118 64     | 145 21     | 109       |

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### SERVICE INFORMATION

Service number 9241S21286  
Your service plan E 221 Rate  
Service address 5401 E McDonald Dr  
Paradise Valley  
Paradise Valley Water CO

Your meter number D8816  
Your meter is read in cycle 15

On Nov 18 your total kWh read was 99020  
On Oct 21 your total kWh read was 83234  
Your total kWh usage is 15786  
  
Your kW demand read was 48

### CURRENT CHARGES

Basic service charge 15 00  
Charge for kWh used 997 03  
Charge for kW demand 77 76  
ACC mandated environmental surcharge 13 00  
Regulatory assessment 2 17  
Sales tax 69 61  
Current energy & delivery charges **1,174 57**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 28         | 31         | 31        |
| kW                    | 48         | 48         | 34        |
| Daily kWh             | 563        | 620        | 474       |
| Daily Cost \$         | 41 94      | 44 17      | 33 61     |

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**SERVICE INFORMATION**

Service number 9084S31282  
Your service plan E 221 Rate  
Service address 5211 E Cheney Dr  
Pump  
Paradise Valley  
Paradise Valley Water CO

Your meter number **E6173**  
Your meter is read in cycle **20**

On Nov 30 your total kWh read was **74617**  
On Oct 26 your total kWh read was **69884**  
Your total kWh usage is **4733**  
  
Your kW demand read was **14**

**CURRENT CHARGES**

Basic service charge **15 00**  
Charge for kWh used **304 73**  
Charge for kW demand **22 68**  
ACC mandated environmental surcharge **4 14**  
Regulatory assessment **0 68**  
Sales tax **21 87**  
**Current energy & delivery charges 369 10**

**ENERGY USE COMPARISON**

|               | This Month | Last Month | Last Year |
|---------------|------------|------------|-----------|
| Days          | 35         | 29         | 28        |
| kW            | 14         | 16         | 17        |
| Daily kWh     | 135        | 204        | 151       |
| Daily Cost \$ | 10 54      | 15 43      | 16 00     |

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Billing Date **Dec 03 2004** Account Number **572440286**

Account Number **572440286**

Billing Date **Dec 03 2004**

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### SERVICE INFORMATION

Service number 8953S11282  
 Your service plan E 221 Rate  
 Service address 5975 N Miller Rd  
 Mrtf#1  
 Scottsdale  
 Paradise Valley Water CO

Your meter number A6664  
 Your meter is read in cycle 14

On Nov 17 your total kWh read was 31409  
 On Oct 18 your total kWh read was 31357  
 The read difference is 52  
 Multiplier applied to the read difference is 400  
 Your total kWh usage is 20800

Your kW demand read was 73  
 Multiplier applied to read is 400  
 Your total kW demand is 292

### CURRENT CHARGES

Basic service charge 15 00  
 Charge for kWh used 1,347 01  
 Charge for kW demand 473 04  
 ACC mandated environmental surcharge 13 00  
 Regulatory assessment 3 64  
 Sales tax 116 65  
 Current energy & delivery charges 1,968 34

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 30         | 32         | 30        |
| kW                    | 292        | 356        | 364       |
| Daily kWh             | 693        | 5350       | 680       |
| Daily Cost \$         | 65 61      | 359 38     | 412       |

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**SERVICE INFORMATION**

Service number 3152S30285  
Your service plan E 32 Rate  
Service address 6215 N Miller Rd  
Scottsdale  
Paradise Valley Water CO

Your meter number 79329  
Your meter is read in cycle 14

On Nov 17 your total kWh read was 85845  
On Oct 19 your total kWh read was 85845  
Your total kWh usage is 0  
Your kW demand read was 0

**CURRENT CHARGES**

Basic service charge 12 50  
Charge for kWh used 0 00  
Charge for kW demand 0 00  
ACC mandated environmental surcharge 0 00  
Regulatory assessment 0 02  
Sales tax 0 79  
Current energy & delivery charges 13 31

**ENERGY USE COMPARISON**

|               | This Month | Last Month | Last Year |
|---------------|------------|------------|-----------|
| Days          | 29         | 32         | 29        |
| Daily kWh     | 0          | 0          | 1         |
| Daily Cost \$ | 0 45       | 0 41       | 0 5       |

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**SERVICE INFORMATION**

Service number 9953S01285  
Your service plan E 221 Rate  
Service address 7550 E Lincoln Dr  
Scottsdale  
Paradise Valley Water CO

Your meter number C4671  
Your meter is read in cycle 14

On Nov 17 your total kWh read was 56336  
On Oct 19 your total kWh read was 56211  
The read difference is 125  
Multiplier applied to the read difference is 160  
Your total kWh usage is 20000

Your kW demand read was 1 94  
Multiplier applied to read is 160  
Your total kW demand is 310

**CURRENT CHARGES**

Basic service charge 15 00  
Charge for kWh used 1,295 48  
Charge for kW demand 502 20  
ACC mandated environmental surcharge 13 00  
Regulatory assessment 3 60  
Sales tax 115 24  
Current energy & delivery charges **1,944 52**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 29         | 33         | 33        |
| kW                    | 310        | 310        | 250       |
| Daily kWh             | 689        | 1328       | 128       |
| Daily Cost \$         | 67 05      | 108 48     | 102       |

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**SERVICE INFORMATION**

Service number **5481S10282**  
Your service plan **E 32 Rate**  
Service address **5625 N 52 Pl**  
**Paradise Valley**  
**Paradise Valley Water CO**

Your meter number **D5276**  
Your meter is read in cycle **15**

On Nov 18 your total kWh read was **49**  
On Oct 20 your total kWh read was **49**  
Your total kWh usage is **0**

Your kW demand read was **0**

**CURRENT CHARGES**

Basic service charge **12 50**  
Charge for kWh used **0 00**  
Charge for kW demand **0 00**  
ACC mandated environmental surcharge **0 00**  
Regulatory assessment **0 02**  
Sales tax **0 79**  
**Current energy & delivery charges 13 31**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 29         | 30         | 31        |
| Daily kWh             | 0          | 0          | 0         |
| Daily Cost \$         | 0 45       | 0 44       | 0 4       |

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**SERVICE INFORMATION**

Service number 2225S11282  
Your service plan E 32 Rate  
Service address 5975 N Miller Rd  
Mrtf#2  
Scottsdale  
Paradise Valley Water CO

Your meter number A0016  
Your meter is read in cycle 14

On Nov 17 your total kWh read was 22486  
On Oct 18 your total kWh read was 20976  
The read difference is 1510  
Multiplier applied to the read difference is 400  
Your total kWh usage is 604000

Your kW demand read was 2 70  
Multiplier applied to read is 400  
Your total kW demand is 1080

**CURRENT CHARGES**

Basic service charge 12 50  
Charge for kWh used 30,537 96  
Charge for kW demand 1,666 25  
ACC mandated environmental surcharge 13 00  
Regulatory assessment 63 49  
Sales tax 2,034 47  
Current energy & delivery charges **34,327 67**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 30         | 32         | 30        |
| kW                    | 1080       | 988        | 921       |
| Daily kWh             | 20133      | 16112      | 1433      |
| Daily Cost \$         | 1 144      | 1,043      | 862       |

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**SERVICE INFORMATION**

Service number **5274S11284**  
Your service plan **E 221 Rate**  
Service address **4401 E Lakeside Ln  
Cwhbst  
Paradise Valley  
Paradise Valley Water CO**

Your meter number **A6636**  
Your meter is read in cycle **19**

On Nov 29 your total kWh read was **29869**  
On Oct 25 your total kWh read was **29541**  
The read difference is **328**  
Multiplier applied to the read difference is **80**  
Your total kWh usage is **26240**

Your kW demand read was **1 44**  
Multiplier applied to read is **80**  
Your total kW demand is **115**

**CURRENT CHARGES**

Basic service charge **15 00**  
Charge for kWh used **1 697 40**  
Charge for kW demand **186 30**  
ACC mandated environmental surcharge **13 00**  
Regulatory assessment **3 77**  
Sales tax **120 68**  
**Current energy & delivery charges 2,036 15**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 35         | 31         | 29        |
| kW                    | 115        | 89         | 101       |
| Daily kWh             | 749        | 957        | 801       |
| Daily Cost \$         | 58 17      | 69 88      | 63 11     |

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Account Number **572440286**

Account Number  
**572440286**

Billing Date  
**Dec 03 2004**

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TOTAL AMOUNT DUE  
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Your Account Number **572440286**  
Billing Date **Dec 03 2004**

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Para servicio en español llame al 602-371-6861

**SERVICE INFORMATION**

Service number **6072S30287**  
Your service plan **E 221 Rate**  
Service address **6015 N Miller Rd**  
**Pump 14**  
**Scottsdale**  
**Paradise Valley Water CO**

Your meter number **H0334**  
Your meter is read in cycle **14**

On Nov 17 your total kWh read was **16927**  
On Oct 19 your total kWh read was **15738**  
The read difference is **1189**  
Multiplier applied to the read difference is **120**  
Your total kWh usage is **142680**

Your kW demand read was **2 53**  
Multiplier applied to read is **120**  
Your total kW demand is **304**

**CURRENT CHARGES**

Basic service charge **15 00**  
Charge for kWh used **8 519 47**  
Charge for kW demand **492 48**  
ACC mandated environmental surcharge **13 00**  
Regulatory assessment **17 81**  
Sales tax **570 63**  
Current energy & delivery charges **9,628 39**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 29         | 32         | 29        |
| kW                    | 304        | 302        | 301       |
| Daily kWh             | 4920       | 4916       | 514       |
| Daily Cost \$         | 332 01     | 326 34     | 331       |

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**SERVICE INFORMATION**

Service number 5175S10285  
Your service plan E 221 Rate  
Service address 7009 N 59 Pl  
Paradise Valley  
Paradise Valley Water CO

Your meter number A9254  
Your meter is read in cycle 19

On Nov 24 your total kWh read was 38909  
On Oct 25 your total kWh read was 37243  
Your total kWh usage is 1666

Your kW demand read was 7

**CURRENT CHARGES**

Basic service charge 15 00  
Charge for kWh used 114 59  
Charge for kW demand 11 34  
ACC mandated environmental surcharge 1 46  
Regulatory assessment 0 28  
Sales tax 8 99  
Current energy & delivery charges **151 66**

**ENERGY USE COMPARISON**

|               | This Month | Last Month | Last Year |
|---------------|------------|------------|-----------|
| Days          | 30         | 30         | 28        |
| kW            | 7          | 7          | 7         |
| Daily kWh     | 55         | 68         | 47        |
| Daily Cost \$ | 5 05       | 5 92       | 4 6       |

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Billing Date Dec 03 2004

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**SERVICE INFORMATION**

Service number 0772S30283  
Your service plan E 32 Rate  
Service address 6215 N Miller Rd  
Scottsdale  
Paradise Valley Water CO

Your meter number 56571  
Your meter is read in cycle 14

On Nov 17 your total kWh read was 9164  
On Oct 19 your total kWh read was 9162  
Your total kWh usage is 2  
Your kW demand read was 0

**CURRENT CHARGES**

Basic service charge 12 50  
Charge for kWh used 0 18  
Charge for kW demand 0 00  
ACC mandated environmental surcharge 0 00  
Regulatory assessment 0 02  
Sales tax 0 80  
Current energy & delivery charges **13 50**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 29         | 32         | 29        |
| Daily kWh             | 0          | 0          | 0         |
| Daily Cost \$         | 0 46       | 0 46       | 0 4       |

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**SERVICE INFORMATION**

Service number 0952S30281  
Your service plan E 221 Rate  
Service address 6215 N Miller Rd  
Mil Rd  
Scottsdale  
Paradise Valley Water CO

Your meter number A6666  
Your meter is read in cycle 14

On Nov 17 your total kWh read was 44816  
On Oct 19 your total kWh read was 44364  
The read difference is 452  
Multiplier applied to the read difference is 120  
Your total kWh usage is 54240

Your kW demand read was 4 25  
Multiplier applied to read is 120  
Your total kW demand is 510

**CURRENT CHARGES**

Basic service charge 15 00  
Charge for kWh used 3 500 88  
Charge for kW demand 826 20  
ACC mandated environmental surcharge 13 00  
Regulatory assessment 8 58  
Sales tax 274 91  
Current energy & delivery charges **4,638 57**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 29         | 32         | 29        |
| kW                    | 510        | 505        | 497       |
| Daily kWh             | 1870       | 2520       | 221       |
| Daily Cost \$         | 159 95     | 201 28     | 182       |

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### SERVICE INFORMATION

Service number 3175S10281  
Your service plan E 30 Rate  
Service address Arroyo Rd E Desert Fw N  
SE COR  
Paradise Valley  
Paradise Valley Water CO

Billing for 10/07/2004 through 11/08/2004

The number of Non Metered units is 1  
The kWh per service unit is 25

### CURRENT CHARGES

|  |             |
|--|-------------|
| Basic service charge                         | 6 25        |
| Charges for service to all units             | 2 29        |
| ACC mandated environmental surcharge         | 0 02        |
| Regulatory assessment                        | 0 02        |
| Sales tax                                    | 0 54        |
| <b>Current energy &amp; delivery charges</b> | <b>9 12</b> |

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Billing Date  
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**SERVICE INFORMATION**

Service number 0060S20286  
Your service plan E 32 Rate  
Service address Clearwater Hills  
Wtr Tk  
Paradise Valley  
Paradise Valley Water CO

Your meter number 695081  
Your meter is read in cycle 19

On Nov 29 your total kWh read was 32294  
On Oct 25 your total kWh read was 31791  
Your total kWh usage is 503  
  
Your kW demand read was 2

**CURRENT CHARGES**

Basic service charge 12 50  
Charge for kWh used 46 22  
Charge for kW demand 0 00  
ACC mandated environmental surcharge 0 44  
Regulatory assessment 0 12  
Sales tax 3 73  
Current energy & delivery charges **63 01**

**ENERGY USE COMPARISON**

|               | This Month | Last Month | Last Year |
|---------------|------------|------------|-----------|
| Days          | 35         | 31         | 29        |
| kW            | 2          | 3          | 2         |
| Daily kWh     | 14         | 15         | 4         |
| Daily Cost \$ | 1 80       | 2 13       | 0 8       |

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**SERVICE INFORMATION**

Service number 9462S30282  
Your service plan E 221 Rate  
Service address 6215 N Miller Rd  
Well12  
Scottsdale  
Paradise Valley Water CO

Your meter number D2747  
Your meter is read in cycle 14

On Nov 17 your total kWh read was 43246  
On Oct 19 your total kWh read was 43051  
The read difference is 195  
Multiplier applied to the read difference is 120  
Your total kWh usage is 23400

Your kW demand read was 1 66  
Multiplier applied to read is 120  
Your total kW demand is 199

**CURRENT CHARGES**

Basic service charge 15 00  
Charge for kWh used 1 514 48  
Charge for kW demand 322 38  
ACC mandated environmental surcharge 13 00  
Regulatory assessment 3 67  
Sales tax 117 72  
Current energy & delivery charges **1,986 25**

| ENERGY USE COMPARISON |            |            |           |
|-----------------------|------------|------------|-----------|
|                       | This Month | Last Month | Last Year |
| Days                  | 29         | 32         | 29        |
| kW                    | 199        | 204        | 201       |
| Daily kWh             | 806        | 701        | 166       |
| Daily Cost \$         | 68 49      | 60 28      | 127       |

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Account Number **572440286**

Account Number  
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Billing Date  
**Dec 03 2004**

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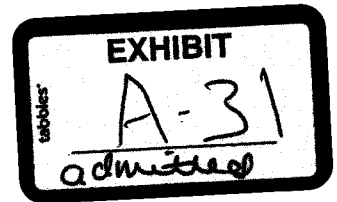
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TOTAL AMOUNT DUE  
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**TOWN OF PARADISE VALLEY  
WATER COMMITTEE  
MINUTES OF MEETING  
MAY 3, 2005**



**1. CALL TO ORDER**

The meeting of the Town Council Water Committee was called to order at 4:00 p.m. on May 3, 2005, in the Town Hall Library Conference Room. Please refer to the attached attendance sheet for those who were present at this meeting.

**2. APPROVAL OF MINUTES OF APRIL 5, 2005**

A motion was made by Rick Coffman, seconded by Mary Hamway and carried unanimously that the minutes of the April 5, 2005 meeting be approved as submitted.

**3. FIRE SAFETY UPDATE**

Police Chief John Wintersteen gave an update on Fire Department activities during the preceding month. He stated that there was no fire activity in the Town during this time.

The Fire Department's greatest concern is the amount of overgrown brush throughout the Town as a result of the wet winter. Rural/Metro will remind residents particularly those living in hillside properties to "clear zones" around their homes by removing brush and weeds.

He reported that fire crews continue to inspect fire hydrants including 27 new hydrants. The Fire Marshal has also been coordinating with the Town in updating the GIS maps to accurately reflect the location of all the hydrants tested.

Town Resident Nan Murley voiced concern about the brush fire danger in Town, particularly in hillside areas. She stated that with low water pressure on hillside properties, residents should be reminded to clear vegetation and dead brush near homes.

**4. CITY OF PHOENIX WATER SYSTEM IMPROVEMENTS UPDATE**

Town Engineer Bill Mead gave an update on the City of Phoenix water system improvements. He stated that the Invergordon Road Water Transmission Main construction project is behind schedule. A number of leaks were found in the line and repairs are ongoing. Phoenix anticipates that the contractor will be completed in two weeks. He also stated that new five hydrants have been installed or will be installed on that stretch of Invergordon.

Mr. Mead also reported on the City of Phoenix well site on Morning Glory and Caballo. Phoenix has agreed to the request of several Town residents to improve the aesthetic

treatment of the site by replacing the current chain link fence with an 8-foot stucco wall, installing curb and gutters, improving the entry way and planting additional landscaping.

Mr. Mead also reported on Phoenix pump station improvements. He advised that Phoenix has hired a firm to assist in site acquisition, and that Phoenix needs a parcel of approximately 8,000 square foot size. Approximately 6 total sites will be needed in the long term. Two sites have been identified as priorities. The City of Phoenix is already working with one property owner to acquire the necessary first site. The City is considering its options in acquiring the second site.

#### **5. BERNEIL WATER COMPANY UPDATE**

Council Member Hamway reported on the meeting held between Neil Folkman of Berneil Water Company and representatives of the Town regarding the emergency fire flow connection. As a result of the discussion, her recommendation is that the Town should pay the full cost of the connection and not attempt to invite residents in the Berneil district to reimburse the Town.

Town Attorney Andrew Miller stated that there would be no way to force residents to share in the cost. Moreover there is no legal impediment to the Town paying the cost of installing the connection because such expenditure is clearly for public safety purposes.

Mr. Miller stated that this item is scheduled for Council consideration May 12, 2005.

#### **6. ARIZONA-AMERICAN WATER COMPANY UPDATE**

Richard Moore and Steve Lutringer of Arizona-American Water Company were present to review the status of projects in the Town. Mr. Lutringer reported that the Jackrabbit Road water transmission main is complete. A total of 10 old hydrants were replaced and eleven new hydrants were installed.

Mr. Lutringer also reported that July 4<sup>th</sup> is the target completion date for the McDonald Drive water main replacement west of Tatum Boulevard. Arizona-American is coordinating with the Tatum Blvd / McDonald Dr Intersection project contractor on traffic control.

Finally he stated that Arizona-American will conduct a water conservation program at Kiva Elementary School May 17. The program will be directed toward the 1-4 grade levels and include a story-telling magician and the "Adventures of Waterman".

#### **7. STREET RESURFACING SCHEDULE FOLLOWING WATER UTILITY CONSTRUCTION**

Public Works Director Andrew Cooper reported that there will be improved coordination between the Town, Arizona-American and the City of Phoenix regarding water line

installations and street resurfacing. It is hoped that by coordinating construction schedules damage to newly resurfaced streets will be minimized.

Town Resident Jane Cole asked if there was some way Rural/Metro could indicate on fire hydrants when they had been inspected.

#### **8. NEXT MEETING SCHEDULE**

Mr. Coffman stated that the next meeting of the Water Committee will be held on June 7, 2005 at 4:00 p.m.

#### **9. ADJOURNMENT**

The meeting was adjourned at 5:00 p.m.



**TOWN OF PARADISE VALLEY  
WATER COMMITTEE  
NOTES OF MEETING  
JUNE 7, 2005**

**1. CALL TO ORDER**

Vice Mayor Winkler noted that no quorum would be present for the Town Council Water Committee so no official action would be taken. The meeting began at 4:00 p.m. on June 7, 2005, in the Town Hall Library Conference Room. Please refer to the attached attendance sheet for those who were present at this meeting.

**2. APPROVAL OF MINUTES OF APRIL 5, 2005**

Town resident Jane Cole suggested that the previous minutes should note that Resident Nan Murley raised concern about the brush fire danger in the Town. She also suggested that Andrew Cooper's title be included in the minutes.

**3. FIRE SAFETY UPDATE**

Police Chief John Wintersteen introduced Rural/Metro Fire Captain Brian Murry who was attending the meeting in Fire Marshal Chuck Fitzgerald's absence. Chief Wintersteen gave an update on Fire Department activities during the preceding month.

He stated that on Saturday, May 21, workman using a grinder started a brush fire near the 6300 block of Hummingbird Lane. Rural/Metro responded with 3 engines, 1 ladder truck, and 2 brush trucks and was able to contain and extinguish the fire quickly. Captain Murry added that in the case of a brush fire the fire department's primary concern is to protect structures. He said it is better for residents to remain inside the home. Captain Murry emphasized the importance of residents creating a defensible space around structures. Rural/Metro plans to do more media outreach to remind residents how best to protect their property from fire.

Chief Wintersteen stated that no fireworks permits had been issued yet for the 4<sup>th</sup> of July. However he expected to receive at least one. He reminded the committee that the Fire Code give the Fire Marshal has the authority to limit permits if the fire danger is too great. He mentioned that the Town Council will consider the fireworks provision of the proposed International Fire Code at the June 9<sup>th</sup> work session.

Rural/Metro hopes to complete hydrant inspections by July. The new hydrants installed by the City of Phoenix on Mountain View Rd will be included in the Town's GIS inventory even though they are technically located in Phoenix.

Vice Mayor Winkler asked if they fire hydrant study had taken into account undeveloped parcels. Captain Murry responded that hydrants are not essential for brush fires because

brush fires are a "moving target". The fire department uses brush trucks and pumper trucks to move with the fire.

#### **4. CITY OF PHOENIX WATER SYSTEM IMPROVEMENTS UPDATE**

Town Engineer Bill Mead gave an update on the City of Phoenix water system improvements. He stated that the Invergordon Road Water Transmission Main construction project is nearing completion. A number of leaks were found in the line and repairs are ongoing. Phoenix anticipates that the contractor will be finished in two weeks. He also stated that new five hydrants have been installed or will be installed on that stretch of Invergordon. Utility companies will soon enter Invergordon Rd to relocate their facilities in advance of the street reconstruction project.

Mr. Mead also reported on the City of Phoenix well site on Morning Glory and Caballo. The contractor is constructing the arsenic treatment facility and will soon be installing the sanitary sewer backwash line. The work is expected to be completed in February 2006.

Mr. Mead also reported on Phoenix pump station improvements. The appraisal on the Hughes property is being reviewed by the City of Phoenix. If it is agreeable the City will make an offer to Mr. Hughes. If refused, the City will likely secure the site through condemnation.

Finally, Mr. Mead announced that the City of Phoenix has installed 12 fire hydrants at various locations throughout the Town.

#### **5. BERNEIL WATER COMPANY UPDATE**

Water Committee Advisor Karl Kohlhoff stated that the Town Manager sent a letter to David Petty, Water and Wastewater Operations Director for the City of Scottsdale, confirming that the Paradise Valley Town Council formally approved the terms for the emergency water connection between the Berneil Water Company and the Scottsdale Water Resources Department. He stated that the expected completion date is July 8, 2005. Responding to a question from Vice Mayor Winkler, Mr. Kohlhoff stated that the standard operating procedures for activation of the emergency water connection will be developed by Fire Marshal Fitzgerald and Mr. Petty.

#### **6. ARIZONA-AMERICAN WATER COMPANY UPDATE**

Brian Biesemeyer introduced Rob Antoniak public information officer for Arizona American Water Company. Mr. Biesemeyer reported that Arizona American has started the rate adjustment process with the Arizona Corporation Commission. He stated he would present more information at the July Water Committee meeting.

Steve Lutringer of Arizona-American Water Company reviewed the status of projects in the Town. Mr. Lutringer reported that the Jackrabbit Road water transmission main is complete.

Mr. Lutringer also reported that the McDonald Drive water main replacement is ahead of schedule. The street will be slurry sealed possibly by the middle of next week.

Finally, he stated that Arizona-American conducted a water conservation program at Kiva Elementary School May 17.

#### **7. STREET RESURFACING SCHEDULE FOLLOWING WATER UTILITY CONSTRUCTION**

Vice Mayor Winkler reaffirmed the Town's commitment to coordinating construction scheduling such that newly resurfaced streets will not be disturbed for a reasonable amount of time. He also emphasized the importance of keeping the driving lanes in construction sites as safe and passable as possible.

#### **8. NEXT MEETING SCHEDULE**

Vice Mayor Winkler stated that the next meeting of the Water Committee will be held on July 5, 2005 at 4:00 p.m.

#### **9. ADJOURNMENT**

The meeting was adjourned at 4:40 p.m.

**TOWN OF PARADISE VALLEY  
WATER COMMITTEE  
MINUTES OF MEETING  
OCTOBER 4, 2005**

**1. CALL TO ORDER**

The meeting was called to order at 4:00 p.m. on October 4, 2005. Those present are indicated on the attached attendance list.

**2. APPROVAL OF MINUTES OF SEPTEMBER 6, 2005**

It was noted that the attendance list omitted that Council Member Hamway was present. A motion was made by Mary Hamway, seconded by Ed Winkler and carried unanimously that the minutes of the September 6, 2005 meeting be approved as submitted with a correction to the attendance sheet to indicate Council Member Hamway was present.

**3. FIRE SAFETY UPDATE**

Fire Marshal Chuck Fitzgerald gave an update on Fire Department activities in the prior month. He stated that fire hydrant inspections are currently in process, and that notices requiring clearing of overgrown landscaping have been sent.

Chief Fitzgerald gave a detailed report on the two suspected arson fires in the vicinity of Casa Blanca Drive and McDonald Drive. He noted that there was a significant mutual aid presence at the fires by Scottsdale and Phoenix Fire Departments and that no problems of water supply were encountered. In response to an inquiry, he noted that there was a response time under five minutes.

**4. CITY OF PHOENIX WATER SYSTEM IMPROVEMENTS UPDATE**

Town Engineer Bill Mead gave an update on the City of Phoenix Water System Improvement Program, noting that the Invergordon Road water transmission main installation is now virtually complete. He added that the Town has waived restoration of some surface improvements in view of the pending Invergordon Road construction project, and that Phoenix will add the approximate \$20,000 savings to the capital budget for the Paradise Valley improvements.

With regard to the proposed pump station improvements, Mr. Mead advised that the City of Phoenix has hired Valentine Engineers to look at alternative designs and configurations for the pump station improvements. Mr. Mead noted that equipment configurations will be explored at different site locations, and that the City of Phoenix has also agreed to hire a consultant to explore aesthetic treatment. He stated that there is no new information to report to the Committee at this time, and that as soon as the

Valentine firm has provided a report acceptable to the City of Phoenix, the information will be brought to the Water Committee. Mary Hamway inquired if the City of Phoenix will consider an underground installation, and Chairman Winkler stated that the Town needs to know the cost differential for undergrounding the pump station. Mr. Martinsen advised that the Town staff will bring up the need for this information at the next meeting with the City of Phoenix and their consultant, Valentine Engineers.

Mr. Mead also noted that the well site arsenic treatment project is nearing completion and that the landscaping and perimeter esthetic improvements are being discussed with residents.

#### **5. BERNEIL WATER COMPANY UPDATE**

Karl Kohlhoff gave an update on completion of the Berneil Water/City of Scottsdale emergency interconnection, noting that it was completed for approximately one half of the original estimated cost.

Mary Hamway inquired if Berneil Water Company has plans for arsenic removal, and Mr. Kohlhoff responded that he is not aware of any firm plans, but that prior discussion indicated Berneil may be leaning towards a "point of service" arsenic removal system for each customer.

#### **6. ARIZONA-AMERICAN WATER COMPANY UPDATE**

Brian Vandenson of Arizona-American Water Company reported that the Tatum Boulevard/McDonald Drive water main installation will be completed later in the week. He further advised that Arizona-American has opened bids for the Lincoln Drive and Nauni Valley Drive water main replacement projects, and that only two bids were received. He stated that the bids were at least 50% over the estimated cost and that the company is now researching cost reduction measures for the two projects. A key cost factor in the Lincoln Drive water main project is the crossing at the Tatum Boulevard intersection, which was bid as a bored installation because of high traffic volumes through the intersection. After discussion of alternatives with the Committee, it was agreed that Arizona-American would explore with the Town staff means of reducing the cost of the water main installation and also possibly substituting other less costly projects.

#### **7. WATER/DEVELOPMENT RELATED ISSUES**

##### **Water Rate Comparison**

Mr. Kohlhoff presented his report comparing water rates charged by Berneil Water Company, Arizona-American Water Company and the City of Phoenix Water Department. It was noted that the Phoenix water rates are significantly higher than the two private utilities, and Mr. Kohlhoff noted that there may have been an incorrect interpretation of the Phoenix water rates. He stated that he would verify the water rates in the coming month.

#### **8. NEXT MEETING SCHEDULE AND AGENDA TOPICS**

Chairman Winkler stated that the next meeting will be held on November 1, 2005 at 4:00 p.m. Chairman Winkler requested that the next agenda include a discussion on water conservation and asked that staff investigate what public informational materials on water conservation may be made available to the public by the Town.

#### **9. ADJOURNMENT**

The meeting was adjourned at 5:30 p.m.

**TOWN OF PARADISE VALLEY  
MINUTES  
TOWN COUNCIL MEETING  
MAY 12, 2005  
4:00 p.m.**

**CALL TO ORDER**

Mayor Clarke called the meeting of the Town Council of the Town of Paradise Valley, Arizona, to order at 4:02 p.m. on Thursday, May 12, 2005, in the Town Hall, 6401 East Lincoln Drive, Paradise Valley, Arizona, 85253.

**COUNCIL MEMBERS PRESENT**

Mayor Ron Clarke  
Vice Mayor Ed Winkler  
Council Member Rick Coffman  
Council Member Mary Hamway  
Council Member Scott LeMarr  
Council Member Dan Schweiker  
Council Member Virginia "Jini" Simpson (4:05 p.m.)

**STAFF MEMBERS PRESENT**

Town Manager Tom Martinsen  
Town Attorney Andrew Miller  
Management Services Director Lenore Lancaster  
Town Engineer William Mead  
Police Chief John Wintersteen  
Building & Zoning Director Hamid Arshadi  
Public Works Director Andrew Cooper  
Planning Director Eva Cutro  
Management Analyst Duncan Miller  
Senior Planner Paul Michaud  
Fire Marshal Chuck Fitzgerald

**DISCUSSION ITEMS**

**Discussion of Merkaba Preliminary Plat**

Mr. Michaud said this is a proposal for a four-lot subdivision at the southeast corner of Tatum Boulevard and Doubletree Ranch Road. He reviewed compliance to the General Plan. He reviewed the wall, the preliminary grading and drainage. There are no proposed road improvements required on Doubletree Ranch Road. Additional right of way is required on

Tatum Boulevard as well as a sidewalk. He reviewed compliance to the Town Code. He reviewed the public comments. The Planning Commission forwarded this to Council with recommendation for approval by a 6 to 0 vote on April 19, 2005. Mr. Michaud reviewed the recommended stipulations. This is tentatively scheduled for the June 9, 2005 Council Meeting.

There was discussion of whether the land was restored to natural grade after the construction of Doubletree Ranch Road. Mr. Mead explained that there were measurements before and after the site was used for construction and it has been restored to natural grade.

There was discussion of the possibility of having room for a town entry monument and getting an easement for the monument.

#### **Discussion of Wall Height Requirements Adjacent to Special Use Permits Properties**

Ms. Cutro said Ordinance Number 559 is amending Article XXIV Walls and Fences. The first proposal is to allow a wall of 8 feet adjoining non-residential properties other than a right-of-way. In addition, the screen wall for mechanical equipment will be allowed to go to six feet. The area surrounded by screen wall will be calculated as part of the allowable floor area. The term "view fence" will also be added. The term "adjacent" will be changed to "adjoining". The last requirement is that permits issued for alterations, repair, or additions to such wall or view fence, covered by a single or multiple building permits within a 36 month period that together involves structural addition or demolition of more than 50-percent of the lineal feet of such wall or view fence be made to conform to the height, setback, and finish requirements of Article XXIV.

#### **Discussion of Hillside Code Revisions**

Ms. Cutro stated Ordinance Number 558 amends the Hillside Development Regulations. This amends the size of submitted drawings and models during the application review process. The second change clarifies the incentives for decorative driveways. The third item addresses the screening of mechanical equipment and windows of interior bathroom areas. The fourth issue is to streamline the application review process for smaller additions and accessory structures. The fifth item is to clarify the height of lighting fixtures affixed to trees. The sixth item is inclusion of language that accessory buildings and structures shall not occupy more than one-half of the total ground area of the main building. The last change is the addition of language that states, the lamp must be recessed to provide a minimum of 45 degree cut-off from the vertical plane.

#### **Discussion of Mutual Aid Agreements with the City of Scottsdale and City of Phoenix for Fire and Emergency Medical Services**

Mr. Martinsen said the alternatives for future fire service have been discussed over the last several months. The City of Scottsdale has prepared a mutual aid agreement to be effective July 1, 2005, and is effective for one-year. There is a concern that both Phoenix and Scottsdale feel that responding into the Town would be subsidizing a private company. He has been assured that



Scottsdale would go beyond the one-mile in, but they can decline if they are unable to provide service.

Mr. Martinsen said he and Chief Wintersteen met with the Phoenix Fire Department. They do not want to continue a mutual aid agreement when service is provided by a private company. They did prefer to have an agreement with the town, if the fire service meets the same standards as other communities. Mr. Martinsen assured Phoenix the Town is going to build a second fire station.

### **EXECUTIVE SESSION**

Discussion and consultation with Town Attorney regarding Mutual Aid Agreements with the City of Scottsdale and the City of Phoenix for Fire and Emergency Medical Services as authorized by A.R.S. §38-431.03.A.4

Discussion and consultation with Town representatives concerning right-of-way acquisition in the vicinity of Tatum Blvd and McDonald Drive as authorized by A.R.S. §38-431.03.A.7 and settlement discussions regarding Camelhead Estates III condemnation action as authorized by A.R.S. §38-431.03.A.4.

Discussion and consultation with Town representatives concerning property auction in the vicinity of Invergordon Road and Hummingbird Lane ("Donahoe Property") as authorized by A.R.S. §38-431.03.A.7

Discussion and consultation with the Town Attorney regarding water improvement and land acquisition for City of Phoenix Water booster pump station as authorized by A.R.S. §38-431.03.A.3.

Discussion and consultation with Town Attorney regarding Notice of Claim from property located at 5311 N. 74<sup>th</sup> Street as authorized by A.R.S. §38-431.03.A.4

Councilmember Schweiker made a motion to go in to executive session. Mayor Clarke seconded the motion, which carried 7-0.

The meeting recessed at 5:02 p.m.

### **CALL TO ORDER AND ROLL CALL**

Mayor Clarke reconvened the Town Council of the Town of Paradise Valley, Arizona, at 7:04 p.m. on Thursday, May 12, 2005, in the Town Hall, 6401 East Lincoln Drive, Paradise Valley, Arizona, 85253.

### **COUNCIL MEMBERS PRESENT**

Mayor Ron Clarke  
Vice Mayor Ed Winkler  
Council Member Rick Coffman  
Council Member Mary Hamway  
Council Member Scott LeMarr  
Council Member Dan Schweiker  
Council Member Virginia "Jini" Simpson

### **STAFF MEMBERS PRESENT**

Town Manager Tom Martinsen  
Town Attorney Andrew Miller  
Management Services Director Lenore Lancaster  
Police Chief John Wintersteen  
Town Engineer William Mead  
Public Works Director Andrew Cooper  
Planning Director Eva Cutro  
Fire Marshal Chuck Fitzgerald  
Management Analyst Duncan Miller  
Human Resources Administrator Jill Boehm

### **PLEDGE OF ALLEGIANCE**

Councilmember Coffman led the Pledge of Allegiance.

### **PRESENTATIONS**

There were no presentations.

### **CALL TO THE PUBLIC**

Liz Clendenin, 5229 E. Doubletree Ranch Road, addressed the Council on the fill dirt on the vacant 10 acres at the corner of Doubletree Ranch Road and Tatum Boulevard. She also had concerns about the cracking of the curb and sidewalk in front of her house. In addition, there is a home at 52<sup>nd</sup> Street that is extremely large. She felt the Town needs to be more diligent about

how the houses are placed on the lot. She questioned whether the fill dirt is 24 inches. She also asked that Council consider a rehab code.

Emily Kile, 5429 E. Caron Street, addressed Council on the spec home that is being built next to her. She understands that the house is within Code. Her concern is the tower with windows overlooks her property and she has no privacy.

Jim Rector, 7819 N. Mohave Road, addressed Council on the auction of the Donahoe property.

### **MAYOR / COUNCIL / MANAGER REPORT**

There were no Mayor/Council/Manager reports.

### **CONSENT AGENDA**

- a. Minutes of Town Council Meeting April 28, 2005
- b. Report on Investments with the purchase of two Federal Home Loan Notes with yields of 4.06% maturing 8/24/07 and 4.15% maturing 11/16/07 and two short-term notes with yields of 2.72% maturing 5/3/05 and 2.784% maturing 5/23/05.
- c. Award of Contract for Underground Utility Conversion District 1 to Mastec North America for a total price of \$354,300.
- d. Approval of Special Event Liquor License for Greater Phoenix Swing Dance Club at the Camelback Inn July 1 through July 3, 2005.
- e. Adoption of Resolution Number 1094 Intent to Reimburse Certain Capital Items

Mr. Martinsen summarized the items on the Consent Agenda.

Councilmember Coffman made a motion to adopt the Consent Agenda. Councilmember Simpson seconded the motion, which carried 7-0.

### **PUBLIC HEARINGS**

None

### **ACTION ITEMS**

**Renewal of Group Medical, Dental, Life, AD&D, and Disability Insurance Contracts and HRA Administrative Contract for Fiscal Year 2005/06**

Ms. Boehm reviewed the Delta Dental renewal with a 6% increase. The total increase for the Town is \$3,700. She reviewed the United Healthcare proposal. Originally it was for 17.4%. An employee group recommended plan design changes to reduce the increase to 12.2%. She reviewed the plan changes and the premium increase. The total annual increase is \$68,200. Ms. Boehm said the Standard Group Life, AD&D and Disability insurance plan had a 0% increase. The HRA administrative cost is \$7,400.

Councilmember Schweiker made a motion to renew the group medical, dental, life and disability insurance contracts and the Town's HRA contract in accordance with the renewal terms described in the Action Report. Vice Mayor Winkler seconded the motion, which carried 7-0.

**Authorization of Emergency Water Connection between the City of Scottsdale and the Town of Paradise Valley (Berneil Water Company)**

Mr. Martinsen said this is a recommendation for authorization for an agreement for an emergency water connection from the City of Scottsdale water system to the Berneil water system for a cost of \$46,175. The Berneil Water Company is a small utility company serving only 525 customers in Paradise Valley and has limited resources. The Berneil Water Company does not have a delivery problem, rather a storage problem. Any flows required to put out a fire would deplete their storage. The emergency connection would allow Berneil Water Company to use the Scottsdale water capacity in the event of a fire emergency.

Vice Mayor Winkler made a motion to enter into a letter agreement with the City of Scottsdale to install an automated emergency water connection from the City of Scottsdale water system to the Berneil water system for a cost of \$46,175. Councilmember LeMarr seconded the motion, which carried 7-0.

**Authorization to Rent an Air Cooled HVAC System for the Town Hall Building**

Mr. Cooper said the HVAC system in the Town Hall failed. We immediately rented a unit at a cost of \$5,745 a month. Staff requests Council approve the payment for the rental not to exceed \$13,000.

Councilmember Hamway made a motion to approve the rental of a 60 ton air cooled HVAC system from Aggreko, LLC in an amount not to exceed \$13,000. Councilmember Simpson seconded the motion, which carried 7-0.

**Authorization to Purchase and Install HVAC System for the Town Hall Building**

Mr. Cooper said this purchase was through the SAVE program. Maricopa County used the competitive bid process for this equipment. This 80 ton unit will accommodate the expansion of the Town Hall.

Councilmember Hamway made a motion to approve the purchase and installation of a new 80 ton air cooled HVAC system from Arizona Trane in an amount not to exceed \$60,000. Councilmember Simpson seconded the motion, which carried 7-0.

**Adoption of Ordinance Number 560 Amending Section 10-4-4 Residential Solicitation of Sales**

Mr. Miller said this was discussed in a Council work/study session. This ordinance reflects the changes in the Code recommended during that work/study session.

Vice Mayor Winkler made a motion to adopt Ordinance No. 560. Mayor Clarke seconded the motion, which carried 7-0.

**Adoption of Ordinance Number 561 Amending Chapter 10, Offenses**

Mr. Miller said this relates to construction noise. It prohibits use of certain equipment on Saturdays.

Councilmember Coffman made a motion to adopt Ordinance No. 561. Councilmember Hamway seconded the motion, which carried 5-2, with Councilmember LeMarr and Vice Mayor Winkler voting no.

**Approval of Resolution Number 1095 Authorizing the Town Staff to Bid at an Auction of Certain Real Property located on Mummy Mountain**

Mr. Miller stated this authorizes the Town to participate in the no reserve auction in an effort to acquire property known as the "Donahoe Property" located on Mummy Mountain. The legal description attached to the Action Report is incorrect.

Vice Mayor Winkler made a motion to adopt Resolution 1095 with the authority to attach a corrected legal description. Councilmember Simpson seconded the motion, which carried 6-1 with Councilmember Schweiker voting no.

**Approval of Settlement Agreement/Stipulated Judgment with Camelhead Estates Unit 3 for Right-of-Way Acquisition**

Mr. Miller said this is a stipulated judgment with Camelhead Estates Unit 3 for right-of-way acquisition for the Tatum Boulevard/McDonald Drive intersection improvements. This authorizes the Town Manager to make changes in the scope of the project work.

Richard Starmer, President of Camelhead Estates Unit 3 Homeowners Association, thanked Council for their patience and time.

Councilmember Simpson made a motion to (1) authorize the Town's legal counsel to execute a stipulated judgment that will conclude the pending condemnation suit with the Camelhead Estates Unit 3 Homeowner's Association for the land needed for the improvements to the Tatum Blvd/McDonald Drive Intersection Improvement Project and (2) authorize the Town Manager to make changes to the scope of the Project consistent with the stipulated judgment terms and incorporates the Stipulated Judgment. Councilmember Schweiker seconded the motion, which carried 7-0.

**ADJOURNMENT**

Mayor Clarke adjourned the meeting at 8:22 p.m.

  
\_\_\_\_\_  
Ronald B. Clarke, Mayor

ATTEST:

  
\_\_\_\_\_  
Lenore P. Lancaster, Town Clerk



OFFICIAL SEAL  
OFFICE OF TOWN CLERK  
TOWN OF PARADISE VALLEY  
LENORE LANCASTER, TOWN CLERK



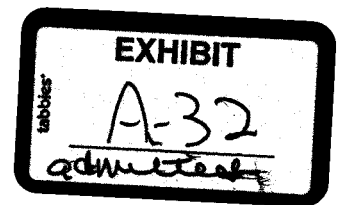
CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the regular meeting of the Town Council of Paradise Valley held on the 12<sup>th</sup> day May 2005. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 27th day of May, 2005.

  
\_\_\_\_\_  
Lenore P. Lancaster, Town Clerk

Arizona-American Water Company  
Paradise Valley Water  
Docket No. W-01303A-02-0405



| <u>Line</u><br><u>No.</u> |  | <u>Aug.</u><br><u>2006</u> | <u>Oct.</u><br><u>2006</u> | <u>Oct.</u><br><u>2007</u> |
|---------------------------|--|----------------------------|----------------------------|----------------------------|
| 1                         |  |                            |                            |                            |
| 2                         | Current/Ongoing Revenues Before increase | \$ 5,079,195               | \$ 5,511,451               | \$ 9,410,380               |
| 3                         |  |                            |                            |                            |
| 4                         | Base Rate Increase                       | 432,256                    |                            |                            |
| 5                         |  |                            |                            |                            |
| 6                         | Step-1 Arsenic Surcharge                 |                            | 3,898,930                  |                            |
| 7                         |  |                            |                            |                            |
| 8                         | Step-2 Arsenic Surcharge                 |                            |                            | 179,636                    |
| 9                         |  |                            |                            |                            |
| 10                        |  |                            |                            |                            |
| 11                        |  |                            |                            |                            |
| 12                        |  |                            |                            |                            |
| 13                        |  |                            |                            |                            |
| 14                        |  |                            |                            |                            |
| 15                        | Total Proposed Revenues                  | \$ 5,511,451               | \$ 9,410,380               | \$ 9,590,016               |
| 16                        |  |                            |                            |                            |
| 17                        | Percent Increase                         | 8.51%                      | 70.74%                     | 1.91%                      |



Arizona-American Water Company  
Paradise Valley Water  
Docket No. W-01303A-02-0405

**Residential 5/8-Inch Meter Effective August 2006 (Base Rates)**

| Monthly Minimum |   |         |                       |         |                   |
|-----------------|---|---------|-----------------------|---------|-------------------|
|                 |   | Present | Base Rate<br>Proposed | Arsenic | Total<br>Proposed |
| 5/8-inch        | 1 | \$ 8.41 | \$ 9.75               | \$ -    | \$ 9.75           |

| Commodity Chg.  |           |                       |         |                                   |                   |
|-----------------|-----------|-----------------------|---------|-----------------------------------|-------------------|
|                 | Present   | Base Rate<br>Proposed | Arsenic | High Block<br>Surcharge<br>(CIAC) | Total<br>Proposed |
| 0 - 25,000      | \$ 0.7300 | \$ 0.8300             | \$ -    |                                   | 0.83              |
| 25,001 - 80,000 | \$ 1.6800 | \$ 1.8000             | \$ -    |                                   | 1.80              |
| 80,001 and over | \$ 2.1700 | \$ 2.2500             | \$ -    | \$ 2.1500                         | 4.40              |

| Typical Bill  |         |               |                   |                    |                     |
|---------------|---------|---------------|-------------------|--------------------|---------------------|
|               | Gallons | Present Rates | Proposed<br>Rates | Dollar<br>Increase | Percent<br>Increase |
| Average Usage | 22,193  | \$ 24.61      | \$ 28.17          | \$ 3.56            | 14.46%              |
| Median Usage  | 11,500  | 16.81         | 19.30             | 2.49               | 14.82%              |

| <u>Gallons Consumption</u> | Present Rates | Proposed<br>Rates | Dollar<br>Increase | % Increase |
|----------------------------|---------------|-------------------|--------------------|------------|
| 0                          | \$ 8.41       | \$ 9.75           | \$ 1.34            | 15.93%     |
| 1,000                      | 9.14          | 10.58             | 1.44               | 15.75%     |
| 2,000                      | 9.87          | 11.41             | 1.54               | 15.60%     |
| 3,000                      | 10.60         | 12.24             | 1.64               | 15.47%     |
| 4,000                      | 11.33         | 13.07             | 1.74               | 15.36%     |
| 5,000                      | 12.06         | 13.90             | 1.84               | 15.26%     |
| 6,000                      | 12.79         | 14.73             | 1.94               | 15.17%     |
| 7,000                      | 13.52         | 15.56             | 2.04               | 15.09%     |
| 8,000                      | 14.25         | 16.39             | 2.14               | 15.02%     |
| 9,000                      | 14.98         | 17.22             | 2.24               | 14.95%     |
| 10,000                     | 15.71         | 18.05             | 2.34               | 14.89%     |
| 11,000                     | 16.44         | 18.88             | 2.44               | 14.84%     |
| 12,000                     | 17.17         | 19.71             | 2.54               | 14.79%     |
| 13,000                     | 17.90         | 20.54             | 2.64               | 14.75%     |
| 14,000                     | 18.63         | 21.37             | 2.74               | 14.71%     |
| 15,000                     | 19.36         | 22.20             | 2.84               | 14.67%     |
| 16,000                     | 20.09         | 23.03             | 2.94               | 14.63%     |
| 17,000                     | 20.82         | 23.86             | 3.04               | 14.60%     |
| 18,000                     | 21.55         | 24.69             | 3.14               | 14.57%     |
| 19,000                     | 22.28         | 25.52             | 3.24               | 14.54%     |
| 20,000                     | 23.01         | 26.35             | 3.34               | 14.52%     |
| 25,000                     | 26.66         | 30.50             | 3.84               | 14.40%     |
| 30,000                     | 35.06         | 39.50             | 4.44               | 12.66%     |
| 35,000                     | 43.46         | 48.50             | 5.04               | 11.60%     |
| 40,000                     | 51.86         | 57.50             | 5.64               | 10.88%     |
| 45,000                     | 60.26         | 66.50             | 6.24               | 10.36%     |
| 50,000                     | 68.66         | 75.50             | 6.84               | 9.96%      |
| 55,000                     | 77.06         | 84.50             | 7.44               | 9.65%      |
| 60,000                     | 85.46         | 93.50             | 8.04               | 9.41%      |
| 65,000                     | 93.86         | 102.50            | 8.64               | 9.21%      |
| 70,000                     | 102.26        | 111.50            | 9.24               | 9.04%      |
| 75,000                     | 110.66        | 120.50            | 9.84               | 8.89%      |
| 100,000                    | 162.46        | 217.50            | 55.04              | 33.88%     |
| 150,000                    | 270.96        | 437.50            | 166.54             | 61.46%     |
| 200,000                    | 379.46        | 657.50            | 278.04             | 73.27%     |
| 250,000                    | 487.96        | 877.50            | 389.54             | 79.83%     |
| 300,000                    | 596.46        | 1,097.50          | 501.04             | 84.00%     |
| 350,000                    | 704.96        | 1,317.50          | 612.54             | 86.89%     |
| 400,000                    | 813.46        | 1,537.50          | 724.04             | 89.01%     |

Arizona-American Water Company  
Paradise Valley Water  
Docket No. W-01303A-02-0405

**Residential 5/8-Inch Meter Effective October 2006 (Step-1 ACRM)**

| Monthly Minimum |   |         |                       |          |                   |
|-----------------|---|---------|-----------------------|----------|-------------------|
|                 |   | Present | Base Rate<br>Proposed | Arsenic  | Total<br>Proposed |
| 5/8-inch        | 1 | \$ 8.41 | \$ 9.75               | \$ 22.25 | \$ 32.00          |

| Commodity Chg.  |           |                       |           |                                   |                   |      |
|-----------------|-----------|-----------------------|-----------|-----------------------------------|-------------------|------|
|                 | Present   | Base Rate<br>Proposed | Arsenic   | High Block<br>Surcharge<br>(CIAC) | Total<br>Proposed |      |
| 0 - 25,000      | \$ 0.7300 | \$ 0.8300             | \$ 0.6412 |                                   |                   | 1.47 |
| 25,001 - 80,000 | \$ 1.6800 | \$ 1.8000             | \$ 0.6412 |                                   |                   | 2.44 |
| 80,001 and over | \$ 2.1700 | \$ 2.2500             | \$ 0.6412 | \$ 2.1500                         |                   | 5.04 |

| Typical Bill  |         |               |                |                 |                  |
|---------------|---------|---------------|----------------|-----------------|------------------|
|               | Gallons | Present Rates | Proposed Rates | Dollar Increase | Percent Increase |
| Average Usage | 22,193  | \$ 24.61      | \$ 64.65       | \$ 40.03        | 162.67%          |
| Median Usage  | 11,500  | 16.81         | 48.91          | 32.11           | 191.07%          |

| Gallons Consumption | Present Rates | Proposed Rates | Dollar Increase | % Increase |
|---------------------|---------------|----------------|-----------------|------------|
| 0                   | \$ 8.41       | \$ 32.00       | \$ 23.59        | 280.44%    |
| 1,000               | 9.14          | 33.47          | 24.33           | 266.15%    |
| 2,000               | 9.87          | 34.94          | 25.07           | 253.98%    |
| 3,000               | 10.60         | 36.41          | 25.81           | 243.48%    |
| 4,000               | 11.33         | 37.88          | 26.55           | 234.33%    |
| 5,000               | 12.06         | 39.35          | 27.29           | 226.29%    |
| 6,000               | 12.79         | 40.82          | 28.03           | 219.17%    |
| 7,000               | 13.52         | 42.29          | 28.77           | 212.82%    |
| 8,000               | 14.25         | 43.76          | 29.51           | 207.12%    |
| 9,000               | 14.98         | 45.24          | 30.26           | 201.98%    |
| 10,000              | 15.71         | 46.71          | 31.00           | 197.31%    |
| 11,000              | 16.44         | 48.18          | 31.74           | 193.06%    |
| 12,000              | 17.17         | 49.65          | 32.48           | 189.16%    |
| 13,000              | 17.90         | 51.12          | 33.22           | 185.59%    |
| 14,000              | 18.63         | 52.59          | 33.96           | 182.30%    |
| 15,000              | 19.36         | 54.06          | 34.70           | 179.25%    |
| 16,000              | 20.09         | 55.53          | 35.44           | 176.43%    |
| 17,000              | 20.82         | 57.01          | 36.19           | 173.80%    |
| 18,000              | 21.55         | 58.48          | 36.93           | 171.35%    |
| 19,000              | 22.28         | 59.95          | 37.67           | 169.07%    |
| 20,000              | 23.01         | 61.42          | 38.41           | 166.92%    |
| 25,000              | 26.66         | 68.77          | 42.11           | 157.97%    |
| 30,000              | 35.06         | 80.98          | 45.92           | 130.98%    |
| 35,000              | 43.46         | 93.19          | 49.73           | 114.42%    |
| 40,000              | 51.86         | 105.39         | 53.53           | 103.23%    |
| 45,000              | 60.26         | 117.60         | 57.34           | 95.15%     |
| 50,000              | 68.66         | 129.80         | 61.14           | 89.05%     |
| 55,000              | 77.06         | 142.01         | 64.95           | 84.29%     |
| 60,000              | 85.46         | 154.22         | 68.76           | 80.45%     |
| 65,000              | 93.86         | 166.42         | 72.56           | 77.31%     |
| 70,000              | 102.26        | 178.63         | 76.37           | 74.68%     |
| 75,000              | 110.66        | 190.83         | 80.17           | 72.45%     |
| 100,000             | 162.46        | 303.86         | 141.40          | 87.04%     |
| 150,000             | 270.96        | 555.92         | 284.96          | 105.17%    |
| 200,000             | 379.46        | 807.98         | 428.52          | 112.93%    |
| 250,000             | 487.96        | 1,060.04       | 572.08          | 117.24%    |
| 300,000             | 596.46        | 1,312.10       | 715.64          | 119.98%    |
| 350,000             | 704.96        | 1,564.16       | 859.20          | 121.88%    |
| 400,000             | 813.46        | 1,816.22       | 1,002.76        | 123.27%    |

Arizona-American Water Company  
Paradise Valley Water  
Docket No. W-01303A-02-0405

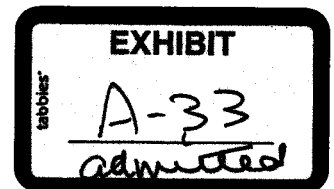
**Residential 5/8-Inch Meter Effective October 2007 (Step-2 ACRM & Phase-2 Fire Flow Surcharge)**

| Monthly Minimum |   |         |                       |          |                   |
|-----------------|---|---------|-----------------------|----------|-------------------|
|                 |   | Present | Base Rate<br>Proposed | Arsenic  | Total<br>Proposed |
| 5/8-inch        | 1 | \$ 8.41 | \$ 9.75               | \$ 23.27 | \$ 33.02          |

| Commodity Chg.  |           |                       |           |                                   |                   |
|-----------------|-----------|-----------------------|-----------|-----------------------------------|-------------------|
|                 | Present   | Base Rate<br>Proposed | Arsenic   | High Block<br>Surcharge<br>(CIAC) | Total<br>Proposed |
| 0 - 25,000      | \$ 0.7300 | \$ 0.8300             | \$ 0.6707 |                                   | 1.50              |
| 25,001 - 80,000 | \$ 1.6800 | \$ 1.8000             | \$ 0.6707 | \$ 1.0000                         | 3.47              |
| 80,001 and over | \$ 2.1700 | \$ 2.2500             | \$ 0.6707 | \$ 3.1500                         | 6.07              |

| Typical Bill  |         |               |                |                 |                  |
|---------------|---------|---------------|----------------|-----------------|------------------|
|               | Gallons | Present Rates | Proposed Rates | Dollar Increase | Percent Increase |
| Average Usage | 22,193  | \$ 24.61      | \$ 66.33       | \$ 41.71        | 169.50%          |
| Median Usage  | 11,500  | 16.81         | 50.28          | 33.47           | 199.19%          |

| Gallons Consumption | Present Rates | Proposed Rates | Dollar Increase | % Increase |
|---------------------|---------------|----------------|-----------------|------------|
| 0                   | \$ 8.41       | \$ 33.02       | \$ 24.61        | 292.63%    |
| 1,000               | 9.14          | 34.52          | 25.38           | 277.69%    |
| 2,000               | 9.87          | 36.02          | 26.15           | 264.96%    |
| 3,000               | 10.60         | 37.52          | 26.92           | 253.98%    |
| 4,000               | 11.33         | 39.02          | 27.69           | 244.42%    |
| 5,000               | 12.06         | 40.52          | 28.46           | 236.02%    |
| 6,000               | 12.79         | 42.02          | 29.23           | 228.57%    |
| 7,000               | 13.52         | 43.53          | 30.01           | 221.93%    |
| 8,000               | 14.25         | 45.03          | 30.78           | 215.97%    |
| 9,000               | 14.98         | 46.53          | 31.55           | 210.59%    |
| 10,000              | 15.71         | 48.03          | 32.32           | 205.71%    |
| 11,000              | 16.44         | 49.53          | 33.09           | 201.27%    |
| 12,000              | 17.17         | 51.03          | 33.86           | 197.20%    |
| 13,000              | 17.90         | 52.53          | 34.63           | 193.46%    |
| 14,000              | 18.63         | 54.03          | 35.40           | 190.02%    |
| 15,000              | 19.36         | 55.53          | 36.17           | 186.83%    |
| 16,000              | 20.09         | 57.03          | 36.94           | 183.88%    |
| 17,000              | 20.82         | 58.53          | 37.71           | 181.14%    |
| 18,000              | 21.55         | 60.03          | 38.48           | 178.58%    |
| 19,000              | 22.28         | 61.53          | 39.25           | 176.19%    |
| 20,000              | 23.01         | 63.03          | 40.02           | 173.95%    |
| 25,000              | 26.66         | 70.54          | 43.88           | 164.59%    |
| 30,000              | 35.06         | 87.89          | 52.83           | 150.69%    |
| 35,000              | 43.46         | 105.25         | 61.79           | 142.17%    |
| 40,000              | 51.86         | 122.60         | 70.74           | 136.40%    |
| 45,000              | 60.26         | 139.95         | 79.69           | 132.25%    |
| 50,000              | 68.66         | 157.31         | 88.65           | 129.11%    |
| 55,000              | 77.06         | 174.66         | 97.60           | 126.66%    |
| 60,000              | 85.46         | 192.01         | 106.55          | 124.68%    |
| 65,000              | 93.86         | 209.37         | 115.51          | 123.06%    |
| 70,000              | 102.26        | 226.72         | 124.46          | 121.71%    |
| 75,000              | 110.66        | 244.08         | 133.42          | 120.56%    |
| 100,000             | 162.46        | 382.84         | 220.38          | 135.65%    |
| 150,000             | 270.96        | 686.38         | 415.42          | 153.31%    |
| 200,000             | 379.46        | 989.92         | 610.46          | 160.88%    |
| 250,000             | 487.96        | 1,293.45       | 805.49          | 165.07%    |
| 300,000             | 596.46        | 1,596.99       | 1,000.53        | 167.74%    |
| 350,000             | 704.96        | 1,900.53       | 1,195.57        | 169.59%    |
| 400,000             | 813.46        | 2,204.06       | 1,390.60        | 170.95%    |



CITY OF SCOTTSDALE  
PERCENTAGE OF RESIDENTIAL BILLS BY BLOCKS  
2004 DATA FROM BILLING SYSTEM (PMTUSGRVNR REPORTS BY MONTH)

| Cumulative # of bills: | 1st block<br>0 to 25 | 2nd block<br>26 to 80 | 3rd block<br>> 80 | Total  |
|------------------------|----------------------|-----------------------|-------------------|--------|
| Jan '04                | 66.8%                | 28.3%                 | 4.9%              | 100.0% |
| Feb '04                | 92.4%                | 6.1%                  | 1.5%              | 100.0% |
| Mar '04                | 91.7%                | 7.1%                  | 1.2%              | 100.0% |
| Apr '04                | 87.6%                | 10.0%                 | 2.4%              | 100.0% |
| May '04                | 94.7%                | 3.5%                  | 1.8%              | 100.0% |
| Jun '04                | 69.4%                | 24.1%                 | 6.5%              | 100.0% |
| Jul '04                | 82.4%                | 14.1%                 | 3.5%              | 100.0% |
| Aug '04                | 73.2%                | 21.7%                 | 5.1%              | 100.0% |
| Sep '04                | 73.0%                | 21.1%                 | 5.9%              | 100.0% |
| Oct '04                | 78.5%                | 18.1%                 | 3.4%              | 100.0% |
| Nov '04                | 82.8%                | 14.0%                 | 3.2%              | 100.0% |
| Dec '04                | 84.5%                | 13.1%                 | 2.4%              | 100.0% |
| Annual 2004            | 80.4%                | 16.0%                 | 3.6%              | 100.0% |

**EXHIBIT**  
**A-34**  
**admitted**

| LINE NO. | DESCRIPTION  | [A]<br>COMPANY<br>ORIGINAL<br>AS FILED | [B]<br>COMPANY<br>REVISED<br>POST-HEARING |
|----------|--|--|---|
| 1        |  |  |   |
| 2        | Adjusted Rate Base                                 | \$ 11,651,216                          | \$ 14,412,903                             |
| 3        |  |  |   |
| 4        | Adjusted Operating Income/(Loss)                   | 742,769                                | 864,118                                   |
| 5        |  |  |   |
| 6        | Current Rate of Return                             | 6.38%                                  | 6.00%                                     |
| 7        |  |  |   |
| 8        | Required Rate of Return                            | 7.84%                                  | 7.84%                                     |
| 9        |  |  |   |
| 10       | Required Operating Income                          | 913,455                                | 1,129,527                                 |
| 11       |  |  |   |
| 12       | Operating Income Deficiency/(Excess)               | 170,686                                | 265,410                                   |
| 13       |  |  |   |
| 14       | Gross Revenue Conversion Factor                    | 1.6286                                 | 1.6286                                    |
| 15       |  |  |   |
| 16       | Required Revenue Increase/(Decrease)               | 277,980                                | 432,256                                   |
| 17       |  |  |   |
| 18       | Adjusted Test Year Revenue                         | 5,070,680                              | 5,079,195                                 |
| 19       |  |  |   |
| 20       | Proposed Annual Revenue                            | 5,348,660                              | 5,511,451                                 |
| 21       |  |  |   |
| 22       | Required Increase/Decrease in Revenue (%)          | 5.46%                                  | 8.51%                                     |
| 23       |  |  |   |
| 24       |  |  |   |
| 25       | References:  |  |   |
| 26       | Column [A]: Company Schedules A-1, A-2, & D-1      |  |   |
| 27       | Column [B]: Schedules JMR-RB2, JMR-RB4, Column [A] |  |   |
| 28       |  |  |   |
| 29       |  |  |   |
| 30       |  |  |   |
| 31       |  |  |   |
| 32       |  |  |   |
| 33       |  |  |   |
| 34       |  |  |   |
| 35       |  |  |   |
| 36       |  |  |   |
| 37       |  |  |   |
| 38       |  |  |   |
| 39       |  |  |   |
| 40       |  |  |   |
| 41       |  |  |   |
| 42       |  |  |   |
| 43       |  |  |   |
| 44       |  |  |   |
| 45       |  |  |   |
| 46       |  |  |   |
| 47       |  |  |   |
| 48       |  |  |   |
| 49       |  |  |   |
| 50       |  |  |   |
| 51       |  |  |   |
| 52       |  |  |   |
| 53       |  |  |   |
| 54       |  |  |   |
| 55       |  |  |   |

| LINE NO. |   | (A)<br>COMPANY<br>ORIGINAL<br>AS FILED | (B)<br>COMPANY<br>ADJUSTMENTS | (C)<br>COMPANY<br>REVISED<br>ADJUSTED |
|----------|---|--|-------------------------------|---------------------------------------|
| 1        |   |  |                               |                                       |
| 2        | Plant in Service                                | \$ 29,478,687                          | \$ 3,029,362                  | \$ 32,508,049                         |
| 3        |   |  |                               |                                       |
| 4        | Regulatory Asset - AFUDC Debt                   | 950                                    |                               | 950                                   |
| 5        |   |  |                               |                                       |
| 6        | Less: Accumulated Depreciation                  | 9,913,869                              | 107,315                       | 10,021,184                            |
| 7        | Net Plant in Service                            | \$ 18,565,768                          | \$ 2,922,047                  | \$ 22,487,815                         |
| 8        |   |  |                               |                                       |
| 9        | <u>DEDUCTIONS</u>                               |  |                               |                                       |
| 10       | Net Contributions in Aid of Construction (CIAC) |  |                               |                                       |
| 11       |   |  |                               |                                       |
| 12       | Advances in Aid of Construction (AIAC)          | 6,486,559                              | -                             | 6,486,559                             |
| 13       |   |  |                               |                                       |
| 14       | Customer Deposits                               | 635,912                                | -                             | 635,912                               |
| 15       |   |  |                               |                                       |
| 16       | Meter Advances                                  | 3,500                                  | -                             | 3,500                                 |
| 17       |   |  |                               |                                       |
| 18       | Deferred Income Tax Credits                     | -                                      | -                             | -                                     |
| 19       | Total Deduction                                 | 1,139,528                              | -                             | 1,139,528                             |
| 20       |   |  |                               |                                       |
| 21       | <u>ADDITIONS</u>                                |  |                               |                                       |
| 22       | Working Capital                                 | \$ 8,265,499                           | \$ -                          | \$ 8,265,499                          |
| 23       |   |  |                               |                                       |
| 24       |   |  |                               |                                       |
| 25       |   |  |                               |                                       |
| 26       |   |  |                               |                                       |
| 27       | Total Additions                                 | 350,946                                | (160,359)                     | 190,587                               |
| 28       |   |  |                               |                                       |
| 29       | Original Cost Rate Base                         | \$ 11,651,215                          | \$ 2,761,688                  | \$ 14,412,903                         |
| 30       |   |  |                               |                                       |
| 31       |   |  |                               |                                       |
| 32       |   |  |                               |                                       |
| 33       |   |  |                               |                                       |
| 34       |   |  |                               |                                       |
| 35       |   |  |                               |                                       |
| 36       |   |  |                               |                                       |
| 37       |   |  |                               |                                       |
| 38       |   |  |                               |                                       |
| 39       |   |  |                               |                                       |
| 40       |   |  |                               |                                       |
| 41       |   |  |                               |                                       |
| 42       |   |  |                               |                                       |
| 43       |   |  |                               |                                       |
| 44       |   |  |                               |                                       |
| 45       |   |  |                               |                                       |
| 46       |   |  |                               |                                       |
| 47       |   |  |                               |                                       |
| 48       |   |  |                               |                                       |
| 49       |   |  |                               |                                       |
| 50       |   |  |                               |                                       |
| 51       |   |  |                               |                                       |
| 52       |   |  |                               |                                       |
| 53       |   |  |                               |                                       |
| 54       |   |  |                               |                                       |
| 55       |   |  |                               |                                       |

| LIN                      | ACCT.                                   | DESCRIPTION                  | ORIGINAL<br>COMPANY<br>AS FILED | (A)           | (B)   | (C)<br>ADJ AAW-1                                  | (D)   | (E)   | (F)<br>ADJ AAW-4                                      | (G)   | (H)<br>ADJ AAW-5                                    | (I)   |
|--------------------------|---|------------------------------|---------------------------------|---------------|-------|---|-------|-------|---|-------|---|-------|
| NO.                      | NO.                                     |                              |                                 |               | Blank | Accept<br>Staff ADJ #2<br>Post test year<br>Plant | Blank | Blank | Accept<br>Staff ADJ #3<br>Accumulated<br>Depreciation | Blank | Accept<br>Staff ADJ #5<br>Eliminate<br>Working Cash | Blank |
| <b>PLANT IN SERVICE:</b> |   |                              |                                 |               |       |   |       |       |   |       |   |       |
| 1                        | 300000                                  | Property Held For Future Use | \$                              | 138,662       |       |   |       |       |   |       |   |       |
| 2                        | 301000                                  | Organization                 |                                 | 15,350        |       |   |       |       |   |       |   |       |
| 3                        | 303500                                  | Land & Land Rights TD        |                                 | 8,324         |       |   |       |       |   |       |   |       |
| 4                        | 304100                                  | Structures & Improvements SS |                                 | 7,953         |       |   |       |       |   |       |   |       |
| 5                        | 304200                                  | Structures & Improvements P  |                                 | 69,131        |       |   |       |       |   |       |   |       |
| 6                        | 304300                                  | Struct & Imp WT              |                                 | 3,038,948     |       |   |       |       |   |       |   |       |
| 7                        | 304400                                  | Struct & Imp TD              |                                 | 23,864        |       |   |       |       |   |       |   |       |
| 8                        | 304500                                  | Struct & Imp AG              |                                 | 20,130        |       |   |       |       |   |       |   |       |
| 9                        | 304700                                  | Struct & Imp Store Shop,Gar  |                                 | 93,285        |       |   |       |       |   |       |   |       |
| 10                       | 304800                                  | Struct & Imp Misc            |                                 | 149,284       |       |   |       |       |   |       |   |       |
| 11                       | 307000                                  | Wells & Springs              |                                 | 1,252,563     |       |   |       |       |   |       |   |       |
| 12                       | 311200                                  | Pump Equip Electric          |                                 | 3,337,061     |       |   |       |       |   |       |   |       |
| 13                       | 311300                                  | Pump Equip Diesel            |                                 | 59,421        |       |   |       |       |   |       |   |       |
| 14                       | 320100                                  | WT Equip Non-Media           |                                 | 5,825,149     |       |   |       |       |   |       |   |       |
| 15                       | 330000                                  | Dist Reservoirs & Standpipes |                                 | 912,619       |       |   |       |       |   |       |   |       |
| 16                       | 331100                                  | TD Mains 4in & Less          |                                 | 706,252       |       |   |       |       |   |       |   |       |
| 17                       | 331200                                  | TD Mains 6in to 8in          |                                 | 3,974,977     |       |   |       |       |   |       |   |       |
| 18                       | 331300                                  | TD Mains 10in to 16in        |                                 | 5,485,424     |       | 2,798,803   |       |       |   |       |   |       |
| 19                       | 333000                                  | Services                     |                                 | 2,178,857     |       |   |       |       |   |       |   |       |
| 20                       | 334100                                  | Meters                       |                                 | 328,579       |       |   |       |       |   |       |   |       |
| 21                       | 334200                                  | Meter Installations          |                                 | 103,799       |       |   |       |       |   |       |   |       |
| 22                       | 335000                                  | Hydrants                     |                                 | 746,904       |       | 230,064   |       |       |   |       |   |       |
| 23                       | 340100                                  | Office Furniture & Equip     |                                 | 63,617        |       |   |       |       |   |       |   |       |
| 24                       | 340200                                  | Comp & Periph Equip          |                                 | 99,216        |       |   |       |       |   |       |   |       |
| 25                       | 340300                                  | Computer Software            |                                 | 164,275       |       |   |       |       |   |       |   |       |
| 26                       | 340500                                  | Other Office Equipment       |                                 | 25,224        |       |   |       |       |   |       |   |       |
| 27                       | 341100                                  | Trans Equip LT Duty Trks     |                                 | 14,087        |       |   |       |       |   |       |   |       |
| 28                       | 341300                                  | Trans Equip Autos            |                                 | 19,307        |       |   |       |       |   |       |   |       |
| 29                       | 341400                                  | Trans Equip Other            |                                 | 13,606        |       |   |       |       |   |       |   |       |
| 30                       | 343000                                  | Tools Shop Garage Equip      |                                 | 83,867        |       |   |       |       |   |       |   |       |
| 31                       | 345000                                  | Power Operated Equipment     |                                 | 147,066       |       |   |       |       |   |       |   |       |
| 32                       | 346100                                  | Comm Equip Non-Telephone     |                                 | 290,493       |       |   |       |       |   |       |   |       |
| 33                       | 346300                                  | Comm Equip Other             |                                 | 81,454        |       |   |       |       |   |       |   |       |
| 34                       |   |                              |                                 | 29,478,667    |       | 3,018,867   |       |       |   |       |   |       |
| 35                       |   |                              |                                 | -             |       | -   |       |       |   |       |   |       |
| 36                       | AFUDC Debt                              |                              |                                 | 950           |       |   |       |       |   |       |   |       |
| 37                       | Total Plant in Service                  |                              |                                 | \$ 29,479,637 |       | \$ 3,018,867                                      |       |       | \$ -  |       |   |       |
| 38                       | Less: Accumulated Depreciation          |                              |                                 | \$ 9,913,869  |       |   |       |       | \$ 107,315  |       |   |       |
| 39                       | Net Plant in Service (L59 - L 60)       |                              |                                 | \$ 19,565,768 |       | \$ 3,018,867                                      |       |       | \$ (107,315)  |       |   |       |
| 40                       |   |                              |                                 |               |       |   |       |       |   |       |   |       |
| <b>DEDUCTIONS:</b>       |   |                              |                                 |               |       |   |       |       |   |       |   |       |
| 41                       |   |                              |                                 |               |       |   |       |       |   |       |   |       |
| 42                       | Net Contribution in Aid of Construction |                              |                                 | 6,486,559     |       |   |       |       |   |       |   |       |
| 43                       | Advances in Aid of Construction (AIAC)  |                              |                                 | 635,912       |       |   |       |       |   |       |   |       |
| 44                       | Customer Deposits                       |                              |                                 | 3,500         |       |   |       |       |   |       |   |       |
| 45                       | Meier Advances                          |                              |                                 | -             |       |   |       |       |   |       |   |       |
| 46                       | Deferred Income Tax Credits             |                              |                                 | 1,139,528     |       |   |       |       |   |       |   |       |
| 47                       | Total Deductions                        |                              |                                 | \$ 8,265,499  |       | \$ -  |       |       | \$ -  |       |   |       |

| LINE NO.          | ACCT. NO.                               | DESCRIPTION                  | [J]  | [K]<br>ADJ AAM-6 | [L]<br>ADJ AAM-7 | [M]  | [N]  | [O]  | [P]  | [Q]  | [R]<br>COMPANY<br>REVISED |
|-------------------|---|------------------------------|------|------------------|------------------|------|------|------|------|------|---------------------------|
| PLANT IN SERVICE: |   |                              |      |                  |                  |      |      |      |      |      |                           |
| 1                 | 300000                                  | Property Held For Future Use |      |                  |                  |      |      |      |      |      | \$ 138,662                |
| 2                 | 301000                                  | Organization                 |      |                  |                  |      |      |      |      |      | 15,350                    |
| 3                 | 303500                                  | Land & Land Rights TD        |      |                  |                  |      |      |      |      |      | 8,324                     |
| 4                 | 304100                                  | Structures & Improvements SS |      |                  |                  |      |      |      |      |      | 7,953                     |
| 5                 | 304200                                  | Structures & Improvements P  |      | 10,495           |                  |      |      |      |      |      | 79,626                    |
| 6                 | 304300                                  | Struct & Imp WT              |      |                  |                  |      |      |      |      |      | 3,038,848                 |
| 7                 | 304400                                  | Struct & Imp TD              |      |                  |                  |      |      |      |      |      | 23,864                    |
| 8                 | 304500                                  | Struct & Imp AG              |      |                  |                  |      |      |      |      |      | 20,130                    |
| 9                 | 304700                                  | Struct & Imp Store Shop, Gar |      |                  |                  |      |      |      |      |      | 93,285                    |
| 10                | 304800                                  | Struct & Imp Misc            |      |                  |                  |      |      |      |      |      | 149,284                   |
| 11                | 307000                                  | Wells & Springs              |      |                  |                  |      |      |      |      |      | 1,252,563                 |
| 12                | 311200                                  | Pump Equip Electric          |      |                  |                  |      |      |      |      |      | 3,337,081                 |
| 13                | 311300                                  | Pump Equip Diesel            |      |                  |                  |      |      |      |      |      | 59,421                    |
| 14                | 320100                                  | WT Equip Non-Media           |      |                  |                  |      |      |      |      |      | 5,825,149                 |
| 15                | 330000                                  | Dist Reservoirs & Standpipes |      |                  |                  |      |      |      |      |      | 706,252                   |
| 16                | 331100                                  | TD Mains 4in & Less          |      |                  |                  |      |      |      |      |      | 912,619                   |
| 17                | 331200                                  | TD Mains 6in to 8in          |      |                  |                  |      |      |      |      |      | 3,974,977                 |
| 18                | 331300                                  | TD Mains 10in to 16in        |      |                  |                  |      |      |      |      |      | 8,274,227                 |
| 19                | 333000                                  | Services                     |      |                  |                  |      |      |      |      |      | 2,178,857                 |
| 20                | 334100                                  | Meters                       |      |                  |                  |      |      |      |      |      | 328,579                   |
| 21                | 334200                                  | Meter Installations          |      |                  |                  |      |      |      |      |      | 103,799                   |
| 22                | 335000                                  | Hydrants                     |      |                  |                  |      |      |      |      |      | 976,968                   |
| 23                | 340100                                  | Office Furniture & Equip     |      |                  |                  |      |      |      |      |      | 63,617                    |
| 24                | 340200                                  | Comp & Periph Equip          |      |                  |                  |      |      |      |      |      | 99,216                    |
| 25                | 340300                                  | Computer Software            |      |                  |                  |      |      |      |      |      | 164,275                   |
| 26                | 340500                                  | Other Office Equipment       |      |                  |                  |      |      |      |      |      | 25,224                    |
| 27                | 341100                                  | Trans Equip Lt Duty Tks      |      |                  |                  |      |      |      |      |      | 14,087                    |
| 28                | 341300                                  | Trans Equip Autos            |      |                  |                  |      |      |      |      |      | 19,307                    |
| 29                | 341400                                  | Tools Shop, Garage Equip     |      |                  |                  |      |      |      |      |      | 13,608                    |
| 30                | 343000                                  | Power Operated Equipment     |      |                  |                  |      |      |      |      |      | 83,867                    |
| 31                | 345000                                  | Comm Equip Non-Telephone     |      |                  |                  |      |      |      |      |      | 147,066                   |
| 32                | 346100                                  | Comm Equip Other             |      |                  |                  |      |      |      |      |      | 290,493                   |
| 33                | 346300                                  |                              |      |                  |                  |      |      |      |      |      | 81,454                    |
| 34                |   |                              | \$ - | \$ 10,495        | \$ -             | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 32,508,049             |
| 35                |   |                              |      |                  |                  |      |      |      |      |      | 960                       |
| 36                | AFUDC Debt                              |                              |      |                  |                  |      |      |      |      |      |                           |
| 37                | Total Plant in Service                  |                              | \$ - | \$ 10,495        | \$ -             | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 32,508,969             |
| 38                | Less: Accumulated Depreciation          |                              |      |                  |                  |      |      |      |      |      | 10,021,184                |
| 39                | Net Plant in Service (L59 - L 60)       |                              | \$ - | \$ 10,495        | \$ -             | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 22,487,815             |
| 40                |   |                              |      |                  |                  |      |      |      |      |      |                           |
| 41                | DEDUCTIONS:                             |                              |      |                  |                  |      |      |      |      |      |                           |
| 42                | Net Contribution in Aid of Constnuction |                              |      |                  |                  |      |      |      |      |      | 6,486,559                 |
| 43                | Advances in Aid of Constnuction (AIAC)  |                              |      |                  |                  |      |      |      |      |      | 635,912                   |
| 44                | Customer Deposits                       |                              |      |                  |                  |      |      |      |      |      | 3,500                     |
| 45                | Meier Advances                          |                              |      |                  |                  |      |      |      |      |      | -                         |
| 46                | Deferred Income Tax Credits             |                              |      |                  |                  |      |      |      |      |      | 1,139,528                 |
| 47                | Total Deductions                        |                              | \$ - | \$ -             | \$ -             | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 8,265,499              |
| 48                |   |                              |      |                  |                  |      |      |      |      |      |                           |
| 49                | ADDITIONS:                              |                              |      |                  |                  |      |      |      |      |      |                           |
| 50                | Working Capital Allowance               |                              |      |                  | 7,774            |      |      |      |      |      | 190,587                   |
| 51                |   |                              |      |                  |                  |      |      |      |      |      | -                         |
| 52                |   |                              |      |                  |                  |      |      |      |      |      |                           |
| 53                | Total Additions                         |                              | \$ - | \$ -             | \$ 7,774         | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 180,587                |
| 54                |   |                              |      |                  |                  |      |      |      |      |      |                           |
| 55                | Original Cost Rate Base                 |                              | \$ - | \$ 10,495        | \$ 7,774         | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 14,412,903             |



| LINE NO. | DESCRIPTION                | (A)<br>COMPANY<br>ORIGINAL<br>ADJUSTED<br>TEST YEAR<br>AS FILED | (B)<br>COMPANY<br>REVISED<br>ADJUSTMENTS<br>TEST YEAR | (C)<br>COMPANY<br>REVISED<br>TEST YEAR<br>ADJUSTED<br>AS | (D)<br>COMPANY<br>REVISED<br>PROPOSED<br>CHANGES | (E)<br>COMPANY<br>REVISED<br>AT PROPOSED<br>RATES |
|----------|----------------------------|---|---|--|--|---|
| 1        | <b>REVENUES:</b>           |   |   |  |  |   |
| 2        | Operating Revenue          | \$ 5,070,680  | \$ 8,515  | \$ 5,079,195   | \$ 432,256                                       | \$ 5,511,451                                      |
| 3        | Total Operating Revenues   | \$ 5,070,680  | \$ 8,515  | \$ 5,079,195   | \$ 432,256                                       | \$ 5,511,451                                      |
| 4        |                            |   |   |  |  |   |
| 5        | <b>OPERATING EXPENSES:</b> |   |   |  |  |   |
| 6        | Operations                 | 2,826,742   | (151,164)   | 2,675,578  | -  | 2,675,578   |
| 7        | Maintenance                | 296,930   | (29,473)  | 267,457  | -  | 267,457   |
| 8        | Depreciation Expense       | 720,578   | 61,648  | 782,226  | -  | 782,226   |
| 9        |                            | \$ 3,844,250  | \$ (118,989)  | \$ 3,725,261   | \$ -   | \$ 3,725,260                                      |
| 10       | <b>TAXES:</b>              |   |   |  |  |   |
| 11       | Property Taxes             | 213,241   | 1,654   | 214,895  | -  | 214,895   |
| 12       | Payroll                    | 54,716  | (12,311)  | 42,405   | -  | 42,405  |
| 13       | State Income               | 38,940  | 3,035   | 41,975   | 30,120   | 72,094  |
| 14       | Federal Income             | 176,765   | 13,777  | 190,542  | 136,726  | 327,268   |
| 15       | Total Taxes                | \$ 483,662  | \$ 6,155  | \$ 489,817   | \$ 166,846                                       | \$ 656,663  |
| 16       |                            |   |   |  |  |   |
| 17       | Total Operating Expenses   | \$ 4,327,912  | \$ (112,835)  | \$ 4,215,077   | \$ 166,846                                       | \$ 4,381,923                                      |
| 18       | Operating Income (Loss)    | \$ 742,768  | \$ 121,350  | \$ 864,118   | \$ 265,410                                       | \$ 1,129,527                                      |
| 19       |                            |   |   |  |  |   |

**References:**

Column [A]: Company Schedule C-1

Column [B]: Schedule JMR-RB5, Pages 1-3

Column [C]: Column [A] + Column [B]

Column [D]: Schedules JMR-RB1 & JMR-RB5, Pages 12 - 13

Column [E]: Column [C] + Column [D]

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| LINE NO. | DESCRIPTION              | [U]     | [V]    | [W]   | [X]    | [Y]   | [Z] | [AA] | [AB] | [AC] | [AD]         |
|----------|--------------------------|---------|--------|-------|--------|-------|-----|------|------|------|--------------|
| 1        | REVENUES:                |         |        |       |        |       |     |      |      |      |              |
| 2        | Operating Revenue        |         |        |       |        | 8,515 |     |      |      |      | \$ 5,078,195 |
| 3        | Total Operating Revenues |         |        |       |        | 8,515 |     |      |      |      | \$ 5,078,195 |
| 4        |                          |         |        |       |        |       |     |      |      |      |              |
| 5        | OPERATING EXPENSES:      |         |        |       |        |       |     |      |      |      |              |
| 6        | Operations               |         |        |       |        |       |     |      |      |      | 2,675,578    |
| 7        | Maintenance              | (1,847) |        |       |        |       |     |      |      |      | 267,467      |
| 8        | Depreciation Expense     | (8,648) | 61,648 |       |        |       |     |      |      |      | 782,226      |
| 9        |                          |         |        |       |        |       |     |      |      |      |              |
| 10       | TAXES:                   |         |        |       |        |       |     |      |      |      |              |
| 11       | Property Taxes           |         |        | 1,654 |        |       |     |      |      |      | 214,895      |
| 12       | Payroll                  |         |        |       | 3,035  |       |     |      |      |      | 42,405       |
| 13       | State Income             |         |        |       | 13,777 |       |     |      |      |      | 41,975       |
| 14       | Federal Income           |         |        |       |        |       |     |      |      |      | 190,542      |
| 15       | Total Taxes              |         |        |       |        |       |     |      |      |      | 489,817      |
| 16       |                          |         |        |       |        |       |     |      |      |      |              |
| 17       | Total Operating Expenses |         |        |       |        |       |     |      |      |      | \$ 4,215,077 |
| 18       |                          |         |        |       |        |       |     |      |      |      |              |
| 19       | Operating Income (Loss)  |         |        |       |        |       |     |      |      |      | \$ 884,118   |
| 20       |                          |         |        |       |        |       |     |      |      |      |              |
| 21       |                          |         |        |       |        |       |     |      |      |      |              |
| 22       |                          |         |        |       |        |       |     |      |      |      |              |
| 23       |                          |         |        |       |        |       |     |      |      |      |              |
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| 37       |                          |         |        |       |        |       |     |      |      |      |              |
| 38       |                          |         |        |       |        |       |     |      |      |      |              |
| 39       |                          |         |        |       |        |       |     |      |      |      |              |
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ADJ AAW-13 ADJ AAW-14 ADJ AAW-15 ADJ AAW-16 ADJ AAW-17 ADJ AAW-18  
 Accept Calculate Calculate Calculate New PV Corp. Misc. Exp.  
 RUCC Depreciation Property Income County Club Adjustments  
 ADJ #13 Expense Taxes Taxes Taxes Proposed by Co.  
 Capitalized Exp. All Hearing Blank Blank Blank

COMPANY  
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| Line No. |   |            |
|----------|---|------------|
| 1        | Revised Rate Case Expense                                 |            |
| 2        |   |            |
| 3        | Updated Rate Case Expense (Broderick Rebuttal)            | \$ 301,832 |
| 4        |   |            |
| 5        | Annual Rate Case Expense based on three year amortization | 100,611    |
| 6        |   |            |
| 7        | Annual Rate Case Expense in application                   | 94,280     |
| 8        |   |            |
| 9        | Adjustment to Operations Expense                          |            |
| 10       |   | \$ 6,331   |
| 11       | Adjustment to Revenues/Expense                            |            |
| 12       |   | \$ 6,331   |
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| Line No. |   |                   |
|----------|---|-------------------|
| 1        | <u>Correct RUCO Income Statement Adjustment 1: Reclassification of Office Lease</u> |                   |
| 2        |   |                   |
| 3        | Total adjustment to Office Lease expense per Moore direct testimony                 | \$ (14,593)       |
| 4        |   | 8.12%             |
| 5        | Paradise Valley 4-Factor Allocation   |                   |
| 6        |   | <u>\$ (1,185)</u> |
| 7        | Adjustment to Operations Expense  |                   |
| 8        |   | <u>\$ (1,185)</u> |
| 9        | Adjustment to Revenues/Expense  |                   |
| 10       |   | \$ (1,185)        |
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| 1    |     | <u>Partially Accept RUCO ADJ #5, Pension Expense</u>                    |  |
| 2    |     |   |  |
| 3    |     |   |  |
| 4    |     | See rebuttal testimony of Company witness David L. Weber, Exhibit DLW-1 |  |
| 5    |     |   |  |
| 6    |     | Company accepted portion of RUCO adjustment                             |  |
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\$ (9,158)

ARIZONA-AMERICAN WATER COMPANY, INC. - PARADISE VALLEY DISTRICT

Docket No. WS-01303A-06-0405  
Test Year Ended December 10, 2004  
Company Income Statement Adjustment AAW-9

(\$56,714)  
(\$20,825)

| Line No. |  |
|----------|--|
| 1        | <u>Partially Accept RUCO ADJ #7: Labor</u>                               |
| 2        |  |
| 3        | See rebuttal testimony of Company witness David L. Weber, Exhibit DLW-1  |
| 4        | Company accepted portion of RUCO adjustment to Operations Labor Expense  |
| 5        | Company accepted portion of RUCO adjustment to Maintenance Labor Expense |
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| Line No. |   |  |
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| 1        | Partially Accept RUCO ADJ #11: Payroll Tax                              |  |
| 2        |   |  |
| 3        |   |  |
| 4        | See rebuttal testimony of Company witness David L. Weber, Exhibit DLW-1 |  |
| 5        |   |  |
| 6        | Company accepted portion of RUCO adjustment                             |  |
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(\$12,311)

| Line No. |  |                 |
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| 1        | <u>Partially Accept RUCO ADJ #12 Related to Central Division Corporate District Allocated Misc. Expenses</u> |                 |
| 2        |  |                 |
| 3        | Total RUCO Adjustment to Operations Expense (Moore Dir., Sch. TLM-12, p. 1, line 3)                          | \$ (1,204)      |
| 4        |  |                 |
| 5        | Paradise Valley's portion of miscellaneous expenses related to ice (Blesemeyer Rebuttal)                     | 162             |
| 6        |  |                 |
| 7        | Paradise Valley's portion of grounds keeping at Sun City operations center (Blesemeyer Rebuttal)             | 741             |
| 8        |  |                 |
| 9        | Security Service Expense related to Paradise Valley Office (Blesemeyer Rebuttal)                             | 102             |
| 10       |  |                 |
| 11       |  |                 |
| 12       | Adjustment to Operations Expense (remainder relates to Other Welfare, Employee Awards, etc.)                 | <u>\$ (199)</u> |
| 13       |  |                 |
| 14       | Adjustment to Revenues/Expense   | <u>\$ (199)</u> |
| 15       |  |                 |
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ARIZONA-AMERICAN WATER COMPANY, INC. - PARADISE VALLEY DISTRICT  
Docket No. WS-01303A-05-0405  
Test Year Ended December 10, 2004  
Company Income Statement Adjustment AAW-12

| Line | No. |  |                   |
|------|-----|--|-------------------|
| 1    |     | Partially Accept RUOCO ADJ #12 Related to Arizona Corporate Allocated Misc. Expenses |                   |
| 2    |     |  |                   |
| 3    |     | RUOCO Adjustment to Arizona Corporate Allocated Misc. Exp.                           |                   |
| 4    |     | (Moore Dir. Sch. RLM-12, p. 1, line 4)   |                   |
| 5    |     |  | \$ (18,233)       |
| 6    |     | Human Resources classified advertising to fill positions in AZ                       | 428               |
| 7    |     |  |                   |
| 8    |     | Maintenance of indoor plants at Phoenix Offices (Biesemeyer Rebuttal)                | 44                |
| 9    |     |  |                   |
| 10   |     | Preliminary study for security renovation of Sun City office (Biesemeyer Rebuttal)   | 83                |
| 11   |     |  |                   |
| 12   |     | Employment Recruitment (Biesemeyer Rebuttal)   | 435               |
| 13   |     |  |                   |
| 14   |     | Executive search fee related to Engineering Manager position (Broderick Rebuttal)    | 2,733             |
| 15   |     |  |                   |
| 16   |     | Amortization of Call Center & SSC proj. costs. (Broderick Rebuttal)                  | 8,536             |
| 17   |     |  |                   |
| 18   |     | NAWC non-lobbying annual dues (Broderick Rebuttal)                                   | 1,453             |
| 19   |     |  |                   |
| 20   |     | Directors Fees (Broderick Rebuttal)  | 1,274             |
| 21   |     |  |                   |
| 22   |     | Adjustment to Operations Expense   | <u>\$ (3,247)</u> |
| 23   |     |  |                   |
| 24   |     | Adjustment to Revenues/Expense   | <u>\$ (3,247)</u> |
| 25   |     |  |                   |
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ARIZONA-AMERICAN WATER COMPANY, INC. - PARADISE VALLEY DISTRICT  
Docket No. WS-01303A-05-0405  
Test Year Ended December 10, 2004  
Company Income Statement Adjustment AAW-14  
Calculate Depreciation Expense

| LINE NO. | DESCRIPTION  | ORIGINAL COST | RATE   | EXPENSE      |
|----------|--|---------------|--------|--------------|
| 1        | Property Held For Future Use   | \$ 138,682    | 0.00%  | \$ -         |
| 2        | Organization   | 15,350        | 0.00%  | -            |
| 3        | Land & Land Rights TD  | 8,324         | 0.00%  | -            |
| 4        | Structures & Improvements SS   | 7,953         | 14.59% | 1,160        |
| 5        | Structures & Improvements P  | 79,626        | 3.99%  | 3,177        |
| 6        | Struct & Imp WT  | 3,038,848     | 2.00%  | 60,777       |
| 7        | Struct & Imp TD  | 23,864        | 1.50%  | 358          |
| 8        | Struct & Imp AG  | 20,130        | 4.63%  | 932          |
| 9        | Struct & Imp Store, Shop, Gar  | 93,285        | 4.63%  | 4,319        |
| 10       | Struct & Imp Misc  | 149,284       | 4.63%  | 6,912        |
| 11       | Wells & Springs  | 1,252,563     | 2.48%  | 31,064       |
| 12       | Pump Equip Electric  | 3,337,081     | 4.39%  | 146,498      |
| 13       | Pump Equip Diesel  | 59,421        | 4.39%  | 2,609        |
| 14       | WT Equip Non-Media   | 5,825,149     | 7.06%  | 411,255      |
| 15       | Dist Reservoirs & Standpipes   | 912,619       | 3.15%  | 28,747       |
| 16       | TD Mains 4in & Less  | 706,252       | 4.17%  | 29,451       |
| 17       | TD Mains 6in to 8in  | 3,974,977     | 2.52%  | 100,169      |
| 18       | TD Mains 10in to 16in  | 8,274,227     | 2.34%  | 193,617      |
| 19       | Services   | 2,178,857     | 4.72%  | 102,842      |
| 20       | Meters   | 328,579       | 7.21%  | 23,691       |
| 21       | Meter Installations  | 103,799       | 1.51%  | 1,567        |
| 22       | Hydrants   | 976,968       | 2.10%  | 20,516       |
| 23       | Office Furniture & Equip   | 63,617        | 4.04%  | 2,570        |
| 24       | Comp & Periph Equip  | 99,216        | 15.89% | 15,765       |
| 25       | Computer Software  | 164,275       | 37.71% | 61,948       |
| 26       | Other Office Equipment   | 25,224        | 7.13%  | 1,798        |
| 27       | Trans Equip Lt Duty Trks   | 14,087        | 28.05% | 3,951        |
| 28       | Trans Equip Autos  | 19,307        | 7.80%  | 1,506        |
| 29       | Tools, Shop, Garage Equip  | 13,606        | 0.93%  | 127          |
| 30       | Power Operated Equipment   | 83,867        | 3.61%  | 3,028        |
| 31       | Comm Equip Non-Telephone   | 147,066       | 4.64%  | 6,824        |
| 32       | Comm Equip Other   | 290,493       | 9.76%  | 28,352       |
| 33       | Total  | \$ 32,508,049 | 7.91%  | \$ 1,301,974 |
| 34       | Corporate Allocation (already included in above amounts)                                   |               |        | -            |
| 35       | Amortization of Mummy Mountain Acquisition Costs (Per RUCCO Income Statement Adjustment 8) |               |        | 5,256        |
| 36       | Less: Amortization of CIAC   |               |        | (525,004)    |
| 37       |  |               |        |              |
| 38       |  |               |        |              |
| 39       |  |               |        |              |
| 40       | Company Revised Depreciation Expense   |               |        | \$ 782,226   |
| 41       | Company Original Proposed Depreciation Expense   |               |        | \$ 720,578   |
| 42       | Company Adjustment   |               |        | \$ 61,648    |
| 43       |  |               |        |              |
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ARIZONA-AMERICAN WATER COMPANY, INC. - PARADISE VALLEY DISTRICT  
Docket No. WS-01303A-05-0405  
Test Year Ended December 10, 2004  
Company Income Statement Adjustment AAW-15  
Calculate Property Taxes

| LINE NO. | DESCRIPTION                                    | AMOUNT        |
|----------|--|---------------|
| 1        | Adjusted Test Year Revenues                    | \$ 5,079,195  |
| 2        | Weight Factor                                  | 2             |
| 3        | Subtotal (Line 1 x Line 2)                     | 10,158,390    |
| 4        | Company Proposed Revenue                       | 5,511,451     |
| 5        | Subtotal (Line 3 + Line 4)                     | 15,669,841    |
| 6        | Number of Years                                | 3             |
| 7        | Three Year Average (Line 5 / Line 6)           | \$ 5,223,280  |
| 8        | Department of Revenue Multiplier               | 2             |
| 9        | Revenue Base Value (Line 7 x Line 8)           | \$ 10,446,561 |
| 10       | Plus: 10% of CWP                               | -             |
| 11       | Less: Net Book Value of Licensed Vehicles      | 8,933         |
| 12       | Full Cash Value (Line 9 + Line 10 - Line 11)   | \$ 10,437,628 |
| 13       | Assessment Ratio                               | 25%           |
| 14       | Assessment Value (Line 12 x Line 13)           | \$ 2,609,407  |
| 15       | Composite Property Tax Rate                    | 8.23540%      |
| 16       | Company Revised Property Tax Expense           | \$ 214,895    |
| 17       | Company Original Proposed Property Tax Expense | \$ 213,241    |
| 18       | Company Rebuttal Adjustment                    | \$ 1,654      |
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ARIZONA-AMERICAN WATER COMPANY, INC. - PARADISE VALLEY DISTRICT  
Docket No. WS-01303A-05-0405  
Test Year Ended December 10, 2004  
Company Income Statement Adjustment AAW-16  
Calculate Income Taxes

| Line No. |   | Company Rebuttal Adjusted Test Year | Company Revised Proposed |
|----------|---|-------------------------------------|--------------------------|
| 1        | Calculation of Income Taxes at Proposed Rates   |                                     |                          |
| 2        |   |                                     |                          |
| 3        |   | \$ 1,096,634                        | \$ 1,528,890             |
| 4        | Operating Income Before Inc. Taxes              | 494,242                             | 494,242                  |
| 5        | Interest Expense                                | \$ 602,392                          | \$ 1,034,648             |
| 6        | Arizona Taxable Income                          |                                     |                          |
| 7        |   | \$ 41,975                           | \$ 72,094                |
| 8        | Less Arizona Income Tax                         |                                     |                          |
| 9        | Arizona Income Tax Rate =                       |                                     |                          |
| 10       |   |                                     | 6.968%                   |
| 11       | Federal Income Before Taxes                     | \$ 602,392                          | \$ 1,034,648             |
| 12       | Less Arizona Income Taxes                       | 41,975                              | 72,094                   |
| 13       | Federal Taxable Income                          | \$ 560,417                          | \$ 962,554               |
| 14       |   |                                     |                          |
| 15       | Federal Income Taxes:                           | \$ 190,542                          | \$ 327,268               |
| 16       |   |                                     |                          |
| 17       |   |                                     |                          |
| 18       | Total Income Tax                                | \$ 232,517                          | \$ 399,363               |
| 19       |   |                                     |                          |
| 20       | Tax Rate  | 38.60%                              | 38.60%                   |
| 21       |   |                                     |                          |
| 22       | Effective Income Tax Rates                      |                                     |                          |
| 23       | State   | 6.968%                              | 6.968%                   |
| 24       | Federal   | 31.63%                              | 31.63%                   |
| 25       | Revenue Conversion Factor                       | 1.6286                              | 1.6286                   |
| 26       |   |                                     |                          |
| 27       | Original Company Test Year State Income Taxes   | \$ 38,940                           |                          |
| 28       | Revised Company Test Year State Income Taxes    | 41,975                              |                          |
| 29       | Adjustment to State Income Taxes                | \$ 3,035                            |                          |
| 30       |   |                                     |                          |
| 31       | Original Company Test Year Federal Income Taxes | \$ 176,765                          |                          |
| 32       | Revised Company Test Year Federal Income Taxes  | 190,542                             |                          |
| 33       | Adjustment to Federal Income Taxes              | \$ 13,776.91                        |                          |
| 34       |   |                                     |                          |
| 35       | Calculation of Interest Synchronization:        |                                     |                          |
| 36       | Rate Base (Schedule JMR-RB1, Col. [B], Line 1)  | \$ 14,412,903                       | \$ 14,412,903            |
| 37       | Weighted Average Cost of Debt                   | 3.43%                               | 3.43%                    |
| 38       | Synchronized Interest (L36 x L37)               | \$ 494,242                          | \$ 494,242               |
| 39       |   |                                     |                          |
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ARIZONA-AMERICAN WATER COMPANY, INC. - PARADISE VALLEY DISTRICT  
Docket No. WS-01303A-05-0405  
Test Year Ended December 10, 2004

Company Income Statement Adjustment AAW-18

Calculate Income Taxes

| Line | No. |   | \$ |
|------|-----|---|----|
| 1    |     |   |    |
| 2    |     | Additional Adjustments to allocated corporate miscellaneous expense account proposed by Company |    |
| 3    |     | in response of Staff data request 7.1   |    |
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Summary of ATWACC and Arizona American - Paradise Valley's Estimated RoE for 2005

| Company Name<br>[1]                        | Allowed ROE<br>[2] | Equity<br>Thickness<br>[3] | Embedded                    |                             |                               | Cost of Debt<br>[7] | Embedded                  |                            | Long-Term<br>Debt<br>Thickness<br>[9] | Embedded                               |   | Short-Term<br>Debt<br>Thickness<br>[11] | Tax Rate<br>[12] | Regulatory<br>WACC<br>[13] | ATWACC<br>[14] |
|--|--------------------|----------------------------|-----------------------------|-----------------------------|-------------------------------|---------------------|---------------------------|----------------------------|---------------------------------------|--|---|---|------------------|----------------------------|----------------|
|  |                    |                            | Cost of<br>Preferred<br>[4] | Cost of<br>Preferred<br>[5] | Preferred<br>Thickness<br>[6] |                     | Cost of LT<br>Debt<br>[8] | Cost of ST<br>Debt<br>[10] |                                       | Cost of LT<br>Debt<br>Thickness<br>[9] | Cost of ST<br>Debt<br>Thickness<br>[10] |   |                  |                            |                |
| California-American (Coronado/Village)     | 10.10%             | 0.45                       | 6.29%                       | 0.00%                       | 0.00                          | 5.61%               | 7.12%                     | 0.00%                      | 0.55                                  | 0.00%                                  | 0.00%                                   | 0.00                                    | 39.53%           | 8.46%                      | 6.41%          |
| California-American (Los Angeles)          | 10.04%             | 0.42                       | 6.29%                       | 0.00%                       | 0.00                          | 5.61%               | 7.28%                     | 0.00%                      | 0.58                                  | 0.00%                                  | 0.00%                                   | 0.00                                    | 39.53%           | 8.45%                      | 6.21%          |
| West Virginia-American Water Company       | 9.85%              | 0.41                       | 6.29%                       | 8.56%                       | 0.01                          | 5.61%               | 6.50%                     | 1.50%                      | 0.53                                  | 0.00%                                  | 0.00%                                   | 0.06                                    | 39.53%           | 7.59%                      | 5.90%          |
| New Mexico-American Water Company          | 10.00%             | 0.40                       | 6.29%                       | 0.00%                       | 0.00                          | 5.61%               | 5.72%                     | 0.00%                      | 0.60                                  | 0.00%                                  | 0.00%                                   | 0.00                                    | 39.53%           | 7.43%                      | 6.04%          |
| Tennessee-American Water Company           | 9.90%              | 0.44                       | 6.29%                       | 5.01%                       | 0.02                          | 5.61%               | 6.65%                     | 3.50%                      | 0.49                                  | 0.00%                                  | 0.00%                                   | 0.05                                    | 39.53%           | 7.89%                      | 6.23%          |
| Michigan-American                          | 10.00%             | 0.59                       | 6.29%                       | 0.00%                       | 0.00                          | 5.61%               | 6.96%                     | 2.50%                      | 0.23                                  | 0.00%                                  | 0.00%                                   | 0.19                                    | 39.53%           | 7.91%                      | 6.91%          |
| Ohio-American Water Company                | 9.88%              | 0.44                       | 6.29%                       | 8.19%                       | 0.02                          | 5.61%               | 6.18%                     | 0.00%                      | 0.55                                  | 0.00%                                  | 0.00%                                   | 0.00                                    | 39.53%           | 7.84%                      | 6.31%          |
| New York (Long Island)                     | 10.10%             | 0.37                       | 6.29%                       | 4.50%                       | 0.01                          | 5.61%               | 6.05%                     | 0.00%                      | 0.62                                  | 0.00%                                  | 0.00%                                   | 0.00                                    | 39.53%           | 7.52%                      | 5.88%          |
| California-American (Sacramento/Larkfield) | 9.85%              | 0.37                       | 6.29%                       | 0.00%                       | 0.00                          | 5.61%               | 5.03%                     | 0.00%                      | 0.63                                  | 0.00%                                  | 0.00%                                   | 0.00                                    | 39.53%           | 6.81%                      | 5.78%          |
| Average                                    |                    |                            |                             |                             |                               |                     |                           |                            |                                       |  |   |   |                  | 7.77%                      | 6.19%          |
| Arizona American - Paradise Valley         | 11.01%             | 0.37                       | 6.29%                       | 0.00%                       | 0.00                          | 5.61%               | 5.42%                     | 0.00%                      | 0.63                                  | 0.00%                                  | 0.00%                                   | 0.00                                    | 39.53%           |                            | 6.19%          |

Sources and Notes:

[1] - [12]: From Client

[13]:  $[2] \times [3] + [5] \times [6] + [8] \times [9] + [10] \times [11]$

[14]:  $[2] \times [3] + [4] \times [6] + [7] \times [9] \times (1 - [12]) + [10] \times [11] \times (1 - [12])$

Arizona American - Paradise Valley's Allowed RoE calculated as  $([14][a] - [9] \times [7] \times (1 - [12])) / [3]$ .



Summary of ATWACC and Arizona American - Paradise Valley's Estimated RoE for 2004

| Company Name<br>[1]                  | Allowed ROE<br>[2] | Equity<br>Thickness<br>[3] | Cost of<br>Preferred<br>[4] | Embedded<br>Cost of<br>Preferred<br>[5] | Preferred<br>Thickness<br>[6] | Cost of Debt<br>[7] | Embedded<br>Cost of LT<br>Debt<br>[8] | Long-Term<br>Debt<br>Thickness<br>[9] | Embedded<br>Cost of ST<br>Debt<br>[10] | Short-Term<br>Debt<br>Thickness<br>[11] | Tax Rate<br>[12] | Regulatory<br>WACC<br>[13] | ATWACC<br>[14] |
|--------------------------------------|--------------------|----------------------------|-----------------------------|---|-------------------------------|---------------------|---------------------------------------|---------------------------------------|--|---|------------------|----------------------------|----------------|
| Texas-American                       | 12.00%             | 1.00                       | 6.29%                       | 0.00%                                   | 0.00                          | 5.61%               | 0.00%                                 | 0.00                                  | 0.00%                                  | 0.00                                    | 39.53%           | 12.00%                     | 12.00%         |
| West Virginia-American Water Company | 7.00%              | 0.40                       | 6.29%                       | 8.56%                                   | 0.01                          | 5.61%               | 6.73%                                 | 0.55                                  | 1.40%                                  | 0.04                                    | 39.53%           | 6.62%                      | 4.76%          |
| Pennsylvania-American Water Company  | 10.60%             | 0.42                       | 6.29%                       | 8.08%                                   | 0.01                          | 5.61%               | 6.15%                                 | 0.57                                  | 0.00%                                  | 0.00                                    | 39.53%           | 8.05%                      | 6.48%          |
| ETown Water Company                  | 9.75%              | 0.42                       | 6.29%                       | 7.37%                                   | 0.02                          | 5.61%               | 5.99%                                 | 0.47                                  | 2.77%                                  | 0.09                                    | 39.53%           | 7.30%                      | 5.98%          |
| New Jersey-American Water Company    | 9.75%              | 0.47                       | 6.29%                       | 4.81%                                   | 0.00                          | 5.61%               | 6.29%                                 | 0.53                                  | 0.00%                                  | 0.00                                    | 39.53%           | 7.91%                      | 6.38%          |
| Hawaii-American                      | 10.60%             | 0.40                       | 6.29%                       | 0.00%                                   | 0.00                          | 5.61%               | 7.68%                                 | 0.60                                  | 0.00%                                  | 0.00                                    | 39.53%           | 8.85%                      | 6.28%          |
| Missouri-American Water Company      | 10.00%             | 0.43                       | 6.29%                       | 9.12%                                   | 0.01                          | 5.61%               | 6.22%                                 | 0.57                                  | 0.00%                                  | 0.00                                    | 39.53%           | 7.86%                      | 6.26%          |
| California-American (Sacramento)     | 9.79%              | 0.36                       | 6.29%                       | 0.00%                                   | 0.00                          | 5.61%               | 4.97%                                 | 0.64                                  | 0.00%                                  | 0.00                                    | 39.53%           | 6.71%                      | 5.70%          |
| Virginia-American Water Company      | 10.10%             | 0.41                       | 6.29%                       | 5.21%                                   | 0.01                          | 5.61%               | 6.68%                                 | 0.55                                  | 1.16%                                  | 0.03                                    | 39.53%           | 7.89%                      | 6.06%          |
| Indiana-American Water Company       | 9.25%              | 0.44                       | 6.29%                       | 6.00%                                   | 0.00                          | 5.61%               | 6.86%                                 | 0.56                                  | 0.00%                                  | 0.00                                    | 39.53%           | 7.91%                      | 5.97%          |
| Kentucky-American Water Company      | 10.00%             | 0.41                       | 6.29%                       | 7.72%                                   | 0.04                          | 5.61%               | 6.33%                                 | 0.51                                  | 2.77%                                  | 0.04                                    | 39.53%           | 7.76%                      | 6.21%          |
| Average                              |                    |                            |                             |   |                               |                     |                                       |                                       |  |   |                  | 8.08%                      | 6.55% [a]      |
| Arizona American - Paradise Valley   | 12.00%             | 0.37                       | 6.29%                       | 0.00%                                   | 0.00                          | 5.61%               | 5.42%                                 | 0.63                                  | 0.00%                                  | 0.00                                    | 39.53%           |                            | 6.55%          |

Sources and Notes:

[1] - [12]: From Client.

[13]:  $[2] \times [3] + [5] \times [6] + [8] \times [9] + [10] \times [11]$ .

[14]:  $[2] \times [3] + [4] \times [6] + [7] \times [9] \times (1 - [12]) + [10] \times [11] \times (1 - [12])$ .

Arizona American - Paradise Valley's Allowed RoE calculated as  $([14][a] - [9] \times [7] \times (1 - [12])) / [3]$ .

## Rate Orders in 2005

## Market Rates

## Tax Rate

## 1 California-American (Coronado/Village)

1-Jan-05

10.10%

Long-term Debt 1\_debt  
Short-term Debt 1\_stdebt  
Preferred Stock 1\_pref  
Common Equity 1\_equity

| Share      | Embedded Rate | Regulatory WACC* | ATWACC** |
|------------|---------------|------------------|----------|
| 15,695,900 | 55.00%        | 7.12%            | 3.92%    |
| 0          | 0.00%         | 0.00%            | 0.00%    |
| 0          | 0.00%         | 0.00%            | 0.00%    |
| 12,842,100 | 45.00%        | 10.10%           | 4.55%    |
| 28,538,000 | 100.00%       | 8.47%            | 6.42%    |

|                   |
|-------------------|
| 39.529%           |
| A-Rated Yield     |
| 5.61%             |
| A-Rated Preferred |
| 6.29%             |

## 2 California-American (Los Angeles)

1-Jan-05

10.04%

Long-term Debt 2\_debt  
Short-term Debt 2\_stdebt  
Preferred Stock 2\_pref  
Common Equity 2\_equity

|            |         |        |       |
|------------|---------|--------|-------|
| 21,094,186 | 57.56%  | 7.28%  | 4.19% |
| 0          | 0.00%   | 0.00%  | 1.95% |
| 0          | 0.00%   | 0.00%  | 0.00% |
| 0          | 0.00%   | 0.00%  | 0.00% |
| 15,553,114 | 42.44%  | 10.04% | 4.26% |
| 36,647,300 | 100.00% | 8.45%  | 6.21% |

## 3 West Virginia-American Water Company

7-Jan-05

9.85%

Long-term Debt 3\_debt  
Short-term Debt 3\_stdebt  
Preferred Stock 3\_pref  
Common Equity 3\_equity

|             |         |       |       |
|-------------|---------|-------|-------|
| 216,890,000 | 53.03%  | 6.50% | 3.45% |
| 23,520,000  | 5.75%   | 1.50% | 1.80% |
| 2,220,000   | 0.54%   | 8.56% | 0.09% |
| 166,390,000 | 40.68%  | 9.85% | 0.05% |
| 409,020,000 | 100.00% | 7.60% | 4.01% |
|             |         |       | 5.90% |

## 4 New Mexico-American Water Company

2-Feb-05

10.00%

Long-term Debt 4\_debt  
Short-term Debt 4\_stdebt  
Preferred Stock 4\_pref  
Common Equity 4\_equity

|            |         |        |       |
|------------|---------|--------|-------|
| 15,185,680 | 60.00%  | 5.72%  | 3.43% |
| 0          | 0.00%   | 0.00%  | 2.04% |
| 0          | 0.00%   | 0.00%  | 0.00% |
| 0          | 0.00%   | 0.00%  | 0.00% |
| 10,123,789 | 40.00%  | 10.00% | 4.00% |
| 25,309,469 | 100.00% | 7.43%  | 6.04% |

## 5 Tennessee-American Water Company

6-Feb-05

9.90%

Long-term Debt 5\_debt  
Short-term Debt 5\_stdebt  
Preferred Stock 5\_pref  
Common Equity 5\_equity

|            |         |       |       |
|------------|---------|-------|-------|
| 43,040,110 | 48.88%  | 6.65% | 3.25% |
| 4,699,624  | 5.34%   | 3.50% | 1.66% |
| 1,400,000  | 1.59%   | 5.01% | 0.11% |
| 38,921,690 | 44.19%  | 9.90% | 0.08% |
| 88,061,424 | 100.00% | 7.89% | 0.10% |
|            |         |       | 4.37% |
|            |         |       | 6.24% |

## 6 Michigan-American

15-Mar-05

10.00%

Long-term Debt 6\_debt  
Short-term Debt 6\_stdebt  
Preferred Stock 6\_pref  
Common Equity 6\_equity

|           |         |        |       |
|-----------|---------|--------|-------|
| 497,969   | 22.77%  | 6.96%  | 1.58% |
| 407,751   | 18.65%  | 2.50%  | 0.77% |
| 0         | 0.00%   | 0.00%  | 0.28% |
| 0         | 0.00%   | 0.00%  | 0.00% |
| 1,281,033 | 58.58%  | 10.00% | 5.86% |
| 2,186,753 | 100.00% | 7.91%  | 6.91% |

## 7 Ohio-American Water Company

25-Mar-05

9.88%

Long-term Debt 7\_debt  
Short-term Debt 7\_stdebt  
Preferred Stock 7\_pref  
Common Equity 7\_equity

|            |         |       |       |
|------------|---------|-------|-------|
| 44,648,123 | 54.56%  | 6.18% | 3.37% |
| 0          | 0.00%   | 0.00% | 1.85% |
| 1,243,312  | 1.52%   | 8.19% | 0.00% |
| 35,944,343 | 43.92%  | 9.88% | 0.12% |
| 81,835,778 | 100.00% | 7.83% | 0.10% |
|            |         |       | 4.34% |
|            |         |       | 6.29% |

## 8 New York (Long Island)

30-Mar-05

10.10%

Long-term Debt 8\_debt  
Short-term Debt 8\_stdebt  
Preferred Stock 8\_pref  
Common Equity 8\_equity

|            |         |        |       |
|------------|---------|--------|-------|
| 47,930,000 | 61.69%  | 6.05%  | 3.73% |
| 0          | 0.00%   | 0.00%  | 2.09% |
| 1,125,000  | 1.45%   | 4.50%  | 0.00% |
| 28,643,000 | 36.86%  | 10.10% | 0.07% |
| 77,698,000 | 100.00% | 7.52%  | 0.09% |
|            |         |        | 3.72% |
|            |         |        | 5.90% |

## 9 California-American (Sacramento/Larkfield)

8-Sep-05

9.85%

Long-term Debt 9\_debt  
Short-term Debt 9\_stdebt  
Preferred Stock 9\_pref  
Common Equity 9\_equity

|            |         |       |       |
|------------|---------|-------|-------|
| 33,484,059 | 63.00%  | 5.03% | 3.17% |
| 0          | 0.00%   | 0.00% | 2.14% |
| 0          | 0.00%   | 0.00% | 0.00% |
| 0          | 0.00%   | 0.00% | 0.00% |
| 19,665,241 | 37.00%  | 9.85% | 3.64% |
| 53,149,300 | 100.00% | 6.81% | 3.64% |
|            |         |       | 5.78% |

## 10 Arizona American - Paradise Valley

Recommended by Staff

Long-term Debt 10\_debt  
Short-term Debt 10\_stdebt  
Preferred Stock 10\_pref  
Common Equity 10\_equity

|        |        |       |       |
|--------|--------|-------|-------|
| 63.30% | 5.42%  | 3.43% | 2.15% |
|        |        | 0.00% | 0.00% |
|        |        | 0.00% | 0.00% |
| 36.70% | 10.40% | 3.82% | 0.00% |
|        |        | 7.25% | 3.82% |
|        |        |       | 5.97% |

Average of water companies in 2005 6.19%  
Arizona American-PV ROE at Average ATWACC 11.01%

\* Uses embedded cost of debt, pre-tax.

\*\* Uses market cost of debt, after-tax; assumes short-term embedded debt rate = market rate.

## Rate Orders in 2004

## Market Rates

|                                      |           | 1-Sep-04                                  |          | 12.00%        |                  |          | Tax Rate |                   |
|--------------------------------------|-----------|---|----------|---------------|------------------|----------|----------|-------------------|
| Texas-American                       |           | Share                                     |          | Embedded Rate | Regulatory WACC* | ATWACC** | 39.529%  | A-Rated Yield     |
| Long-term Debt                       | 1_debt    | 0   | 0.00%    | 0.00%         | 0.00%            | 0.00%    | 5.61%    | A-Rated Preferred |
| Short-term Debt                      | 1_stdebt  | 0   | 0.00%    | 0.00%         | 0.00%            | 0.00%    | 6.29%    |                   |
| Preferred Stock                      | 1_pref    | 0   | 0.00%    | 0.00%         | 0.00%            | 0.00%    |          |                   |
| Common Equity                        | 1_equity  | 1,915,250                                 | 100.00%  | 12.00%        | 12.00%           | 12.00%   |          |                   |
|                                      |           | 1,915,250                                 | 100.00%  |               | 12.00%           | 12.00%   |          |                   |
| West Virginia-American Water Company |           | 2-Jan-04                                  |          | 7.00%         |                  |          |          |                   |
| Long-term Debt                       | 2_debt    | 217,137,451                               | 55.09%   | 6.73%         | 3.71%            | 1.87%    |          |                   |
| Short-term Debt                      | 2_stdebt  | 16,593,732                                | 4.21%    | 1.40%         | 0.06%            | 0.04%    |          |                   |
| Preferred Stock                      | 2_pref    | 2,167,827                                 | 0.55%    | 8.56%         | 0.05%            | 0.03%    |          |                   |
| Common Equity                        | 2_equity  | 158,251,382                               | 40.15%   | 7.00%         | 2.81%            | 2.81%    |          |                   |
|                                      |           | 394,150,392                               | 100.00%  |               | 6.63%            | 4.76%    |          |                   |
| Pennsylvania-American Water Company  |           | 16-Jan-04                                 |          | 10.60%        |                  |          |          |                   |
| Long-term Debt                       | 3_debt    | 884,987,000                               | 56.82%   | 6.15%         | 3.49%            | 1.93%    |          |                   |
| Short-term Debt                      | 3_stdebt  | 0   | 0.00%    | 0.00%         | 0.00%            | 0.00%    |          |                   |
| Preferred Stock                      | 3_pref    | 15,190,000                                | 0.98%    | 8.08%         | 0.08%            | 0.06%    |          |                   |
| Common Equity                        | 3_equity  | 657,329,000                               | 42.20%   | 10.60%        | 4.47%            | 4.47%    |          |                   |
|                                      |           | 1,557,506,000                             | 100.00%  |               | 8.04%            | 6.46%    |          |                   |
| ETown Water Company                  |           | 1-Jul-04                                  |          | 9.75%         |                  |          |          |                   |
| Long-term Debt                       | 4_debt    | 276,685,375                               | 47.20%   | 5.99%         | 2.83%            | 1.60%    |          |                   |
| Short-term Debt                      | 4_stdebt  | 52,500,000                                | 8.96%    | 2.77%         | 0.25%            | 0.15%    |          |                   |
| Preferred Stock                      | 4_pref    | 12,000,000                                | 2.05%    | 7.37%         | 0.15%            | 0.13%    |          |                   |
| Common Equity                        | 4_equity  | 244,880,000                               | 41.79%   | 9.75%         | 4.07%            | 4.07%    |          |                   |
|                                      |           | 586,165,375                               | 100.00%  |               | 7.30%            | 5.96%    |          |                   |
| New Jersey-American Water Company    |           | 18-Feb-04                                 |          | 9.75%         |                  |          |          |                   |
| Long-term Debt                       | 5_debt    | 462,222,233                               | 52.83%   | 6.28%         | 3.32%            | 1.79%    |          |                   |
| Short-term Debt                      | 5_stdebt  | 0   | 0.00%    | 0.00%         | 0.00%            | 0.00%    |          |                   |
| Preferred Stock                      | 5_pref    | 1,554,000                                 | 0.18%    | 4.81%         | 0.01%            | 0.01%    |          |                   |
| Common Equity                        | 5_equity  | 411,159,346                               | 46.99%   | 9.75%         | 4.58%            | 4.58%    |          |                   |
|                                      |           | 874,935,579                               | 100.00%  |               | 7.91%            | 6.38%    |          |                   |
| Hawaii-American                      |           | 14-Apr-04                                 |          | 10.60%        |                  |          |          |                   |
| Long-term Debt                       | 6_debt    | 13,500,000                                | 60.00%   | 7.68%         | 4.61%            | 2.04%    |          |                   |
| Short-term Debt                      | 6_stdebt  | 0   | 0.00%    | 0.00%         | 0.00%            | 0.00%    |          |                   |
| Preferred Stock                      | 6_pref    | 0   | 0.00%    | 0.00%         | 0.00%            | 0.00%    |          |                   |
| Common Equity                        | 6_equity  | 9,000,000                                 | 40.00%   | 10.60%        | 4.24%            | 4.24%    |          |                   |
|                                      |           | 22,500,000                                | 100.00%  |               | 8.85%            | 6.28%    |          |                   |
| Missouri-American Water Company      |           | 16-Apr-04                                 |          | 10.00%        |                  |          |          |                   |
| Long-term Debt                       | 7_debt    | 290,005,000                               | 56.55%   | 6.22%         | 3.52%            | 1.92%    |          |                   |
| Short-term Debt                      | 7_stdebt  | 0   | 0.00%    | 0.00%         | 0.00%            | 0.00%    |          |                   |
| Preferred Stock                      | 7_pref    | 2,680,000                                 | 0.52%    | 9.12%         | 0.05%            | 0.03%    |          |                   |
| Common Equity                        | 7_equity  | 220,162,731                               | 42.93%   | 10.00%        | 4.29%            | 4.29%    |          |                   |
|                                      |           | 512,847,731                               | 100.00%  |               | 7.86%            | 6.24%    |          |                   |
| California-American (Sacramento)     |           | 6-May-04                                  |          | 9.79%         |                  |          |          |                   |
| Long-term Debt                       | 8_debt    | 34,242,073                                | 63.99%   | 4.97%         | 3.18%            | 2.17%    |          |                   |
| Short-term Debt                      | 8_stdebt  | 0   | 0.00%    | 0.00%         | 0.00%            | 0.00%    |          |                   |
| Preferred Stock                      | 8_pref    | 0   | 0.00%    | 0.00%         | 0.00%            | 0.00%    |          |                   |
| Common Equity                        | 8_equity  | 19,269,527                                | 36.01%   | 9.79%         | 3.53%            | 3.53%    |          |                   |
|                                      |           | 53,511,600                                | 100.00%  |               | 6.71%            | 6.70%    |          |                   |
| Virginia-American Water Company      |           | 21-Jun-04                                 |          | 10.10%        |                  |          |          |                   |
| Long-term Debt                       | 9_debt    | 45,453,811                                | 55.175%  | 6.681%        | 3.69%            | 1.87%    |          |                   |
| Short-term Debt                      | 9_stdebt  | 2,606,539                                 | 3.164%   | 1.161%        | 0.04%            | 0.02%    |          |                   |
| Preferred Stock                      | 9_pref    | 636,923                                   | 0.773%   | 5.209%        | 0.04%            | 0.05%    |          |                   |
| Common Equity                        | 9_equity  | 33,684,510                                | 40.888%  | 10.100%       | 4.13%            | 4.13%    |          |                   |
|                                      |           | 82,381,783                                | 100.000% |               | 7.90%            | 6.07%    |          |                   |
| Indiana-American Water Company       |           | 18-Nov-04                                 |          | 9.25%         |                  |          |          |                   |
| Long-term Debt                       | 10_debt   | 254,659,452                               | 55.96%   | 6.86%         | 3.84%            | 1.90%    |          |                   |
| Short-term Debt                      | 10_stdebt | 0   | 0.00%    | 0.00%         | 0.00%            | 0.00%    |          |                   |
| Preferred Stock                      | 10_pref   | 420,000                                   | 0.09%    | 6.00%         | 0.01%            | 0.01%    |          |                   |
| Common Equity                        | 10_equity | 189,979,016                               | 43.96%   | 9.25%         | 4.07%            | 4.07%    |          |                   |
|                                      |           | 455,058,468                               | 100.00%  |               | 7.92%            | 6.97%    |          |                   |
| Kentucky-American Water Company      |           | 1-Dec-04                                  |          | 10.00%        |                  |          |          |                   |
| Long-term Debt                       | 11_debt   | 81,944,180                                | 51.39%   | 6.33%         | 3.25%            | 1.74%    |          |                   |
| Short-term Debt                      | 11_stdebt | 5,894,582                                 | 3.70%    | 2.77%         | 0.10%            | 0.06%    |          |                   |
| Preferred Stock                      | 11_pref   | 6,028,514                                 | 3.78%    | 7.72%         | 0.29%            | 0.24%    |          |                   |
| Common Equity                        | 11_equity | 65,583,875                                | 41.13%   | 10.00%        | 4.11%            | 4.11%    |          |                   |
|                                      |           | 159,461,151                               | 100.00%  |               | 7.75%            | 6.18%    |          |                   |
| Arizona American - Paradise Valley   |           | Recommended by Staff                      |          |               |                  |          |          |                   |
| Long-term Debt                       | 12_debt   |   | 63.30%   | 5.42%         | 3.43%            | 2.15%    |          |                   |
| Short-term Debt                      | 12_stdebt |   | 0.00%    | 0.00%         | 0.00%            | 0.00%    |          |                   |
| Preferred Stock                      | 12_pref   |   | 0.00%    | 0.00%         | 0.00%            | 0.00%    |          |                   |
| Common Equity                        | 12_equity |   | 36.70%   | 10.40%        | 3.82%            | 3.82%    |          |                   |
|                                      |           |   |          |               | 7.25%            | 6.97%    |          |                   |
|                                      |           | Average of water companies in 2004        |          | 6.64%         |                  |          |          |                   |
|                                      |           | Arizona American-PV ROE at Average ATWACC |          | 11.97%        |                  |          |          |                   |

\* Uses embedded cost of debt, pre-tax.

\*\* Uses market cost of debt, after-tax; assumes short-term embedded debt rate = market rate.

**American Water Works Company Utility Subsidiaries  
Summary of Requested vs Granted ROE  
for the Most Recent Rate Cases**

| State                                      | Expected<br>Date of<br>Order | Effective<br>Date of<br>Order | Requested<br>ROE | Granted<br>ROE |
|--|------------------------------|-------------------------------|------------------|----------------|
| New York (Long Island)                     | N/A                          | 1-Jan-98                      | 10.20%           | 9.70%          |
| New Mexico-American Water Company          | 23-Nov-98                    | 1-Jan-99                      | 11.15%           | 10.08%         |
| New Jersey-American Water Company          | 11-Oct-98                    | 6-Apr-99                      | 11.50%           | 10.80%         |
| Arizona (Paradise Valley Water Co)         | 1-Sep-99                     | 1-Aug-99                      | 11.00%           | 11.00%         |
| Indiana-American Water Company             | 8-Nov-99                     | 15-Oct-99                     | 11.53%           | 10.58%         |
| Pennsylvania-American Water Company        | 29-Jan-00                    | 18-Dec-99                     | 11.60%           | 10.56%         |
| Ohio-American Water Company                | 1-Jun-00                     | 29-Jun-00                     | 11.75%           | 11.50%         |
| Maryland-American Water Company            | 27-Jul-00                    | 27-Jul-00                     | 10.52%           | 10.52%         |
| Missouri-American Water Company            | 15-Sep-00                    | 20-Sep-00                     | 11.65%           | 10.00%         |
| Illinois-American Water Company            | 13-Mar-01                    | 21-Feb-01                     | 11.25%           | 10.20%         |
| California-American (Los Angeles)          | 1-Jan-01                     | 20-Mar-01                     | 11.25%           | 10.07%         |
| Kentucky-American Water Company            | 29-Nov-00                    | 9-May-01                      | 12.00%           | 11.00%         |
| St. Louis County Water Company             | 20-May-01                    | 18-May-01                     | 12.00%           | 10.75%         |
| Virginia-American Water Company            | 20-Jul-01                    | 20-Jul-01                     | 10.75%           | 10.75%         |
| West Virginia-American Water Company       | 31-Dec-01                    | 31-Dec-01                     | 11.00%           | 9.50%          |
| Pennsylvania-American Water Company        | 26-Jan-02                    | 25-Jan-02                     | 12.00%           | 10.60%         |
| Ohio-American Water Company                | 6-Feb-02                     | 7-Feb-02                      | 11.75%           | 10.30%         |
| Iowa-American Water Company                | 24-Feb-02                    | 21-Feb-02                     | 11.33%           | 10.45%         |
| Indiana-American Water Company             | 9-Jul-02                     | 6-Nov-02                      | 11.50%           | 10.50%         |
| California-American (Monterey)             | 1-Jan-03                     | 23-Feb-03                     | 10.68%           | 10.25%         |
| Tennessee-American Water Company           | 7-Aug-03                     | 7-Aug-03                      | 11.00%           | 9.90%          |
| Illinois-American Water Company            | 16-Aug-03                    | 12-Aug-03                     | 11.02%           | 10.27%         |
| Virginia-American Water Company            | 1-Jan-04                     | 23-Nov-03                     | 10.75%           | 9.80%          |
| New Mexico-American Water Company          | 1-Mar-04                     | 12-Dec-03                     | 11.15%           | 10.08%         |
| Texas-American                             | 1-Sep-04                     | 1-Sep-04                      | 12.00%           | 12.00%         |
| West Virginia-American Water Company       | 6-Jan-04                     | 2-Jan-04                      | 11.00%           | 7.00%          |
| Pennsylvania-American Water Company        | 29-Jan-04                    | 16-Jan-04                     | 12.00%           | 10.60%         |
| ETown Water Company                        | 9-Apr-04                     | 1-Jul-04                      | 11.25%           | 9.75%          |
| New Jersey-American Water Company          | 9-Apr-04                     | 18-Feb-04                     | 11.25%           | 9.75%          |
| Hawaii-American                            | 20-Apr-04                    | 14-Apr-04                     | 10.90%           | 10.60%         |
| Missouri-American Water Company            | 16-Apr-04                    | 16-Apr-04                     | 11.00%           | 10.00%         |
| California-American (Sacramento)           | 1-Aug-03                     | 6-May-04                      | 11.00%           | 9.79%          |
| Virginia-American Water Company            | 21-Jun-04                    | 21-Jun-04                     | 10.75%           | 10.10%         |
| Indiana-American Water Company             | 1-Sep-04                     | 18-Nov-04                     | 11.00%           | 9.25%          |
| Kentucky-American Water Company            | 1-Dec-04                     | 1-Dec-04                      | 11.20%           | 10.00%         |
| California-American (Coronado/Village)     | 1-Jan-05                     | 1-Jan-05                      | 10.50%           | 10.10%         |
| California-American (Los Angeles)          | 1-Jan-05                     | 1-Jan-05                      | 10.70%           | 10.04%         |
| West Virginia-American Water Company       | 7-Jan-05                     | 7-Jan-05                      | 10.60%           | 9.85%          |
| New Mexico-American Water Company          | 1-Mar-05                     | 2-Feb-05                      | 10.50%           | 10.00%         |
| Tennessee-American Water Company           | 6-Feb-05                     | 6-Feb-05                      | 10.70%           | 9.90%          |
| Michigan-American                          | 1-Jan-05                     | 3/15/2005                     | 10.00%           | 10.00%         |
| Ohio-American Water Company                | 12-Dec-04                    | 25-Mar-05                     | 11.00%           | 9.88%          |
| New York (Long Island)                     | 30-Mar-05                    | 30-Mar-05                     | 11.00%           | 10.10%         |
| California-American (Sacramento/Larkfield) | 30-Apr-04                    | 8-Sep-05                      | 10.50%           | 9.85%          |
| Average 2004                               |                              |                               |                  | 9.89%          |
| Average 2005                               |                              |                               |                  | 9.97%          |
| Average 2004 & 2005                        |                              |                               |                  | 9.88%          |